



S T O L L · K E E N O N · O G D E N  
P L L C

2000 PNC Plaza  
500 West Jefferson  
Louisville, KY 40202  
(502) 333-6000  
Fax: (502) 333-6099  
[www.skofirm.com](http://www.skofirm.com)

2008-00131

DEBORAH T. EVERSOLE  
(502) 568-5770  
[deborah.eversole@skofirm.com](mailto:deborah.eversole@skofirm.com)

RECEIVED

April 9, 2008

APR 09 2008

PUBLIC SERVICE  
COMMISSION

Ms. Stephanie L. Stumbo  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

**RE: *The Application of Louisville Gas & Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations***

Dear Ms. Stumbo:

Enclosed please find an original and ten copies of Louisville Gas & Electric Company's Application for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.

Please indicate receipt of this filing by your office by placing a file stamp on the extra copy and returning to me via our runner.

Very truly yours,

STOLL KEENON OGDEN PLLC

Deborah T. Eversole

DTE:jms  
Enc.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In The Matter Of:

APR 09 2008

PUBLIC SERVICE COMMISSION

THE APPLICATION OF LOUISVILLE GAS )  
AND ELECTRIC COMPANY FOR AN )  
ORDER AUTHORIZING THE ISSUANCE OF )  
SECURITIES AND THE ASSUMPTION OF )  
OBLIGATIONS )

CASE NO. 2008- 00131

APPLICATION

Louisville Gas and Electric Company ("LG&E" or the "Company") hereby requests, pursuant to KRS 278.300, that the Commission authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto as more fully described herein. In support of this Application, LG&E states as follows:

1. The Company's full name is Louisville Gas and Electric Company. The post office address of the Company is 220 West Main Street, Louisville, Kentucky 40202. LG&E is a Kentucky corporation, a utility as defined by KRS 278.010(3)(a) and (b) that, as of December, 31, 2007 provides retail electric service to approximately 401,000 customers and retail gas service to approximately 326,000 customers in seventeen counties in Kentucky. A description of LG&E's properties is set out in Exhibit 1 to this Application. A certified copy of the Company's Articles of Incorporation was filed with the Commission in Case No. 2005-00471 (*In the Matter of: Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Authority to Transfer Functional Control of Their Transmission System*) and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

2. By letters dated February 25, 2008, in reference to Case Nos. 2006-00445 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*) and 2005-00046 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), and March 17, 2008 in reference to Case No. 2000-051 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), the Company advised the Commission that it was preparing to take action to mitigate the impact of recent market conditions on certain of its variable rate pollution control bonds. The February 25 and March 17 letters are collectively referred to as the “Letters.” The Company was taking the action with respect to the specific bond series identified in the Letters under existing authority from the Commission. Copies of the Letters are attached hereto as Exhibit 2.

3. The actions set out in the Letters, and the request for authority set out in this Application, are precipitated by general conditions in the financial markets resulting from credit ratings downgrades of several bond insurers. These credit downgrades were the result of those insurers’ diversification into insuring riskier types of debt, such as securities backed by subprime home mortgages.

4. As a result of the downgrades of the bond insurers, LG&E faces higher interest rates on those series of variable rate debt which were issued with bond insurance. In some cases, the downgrades have resulted in failed auctions which result in the interest rate being set at a higher rate pursuant to the terms of the indenture. A failed auction, however, is not a default pursuant to the terms of the financing documents – but only results in higher interest costs.

5. These developments have affected many companies that have used bond insurance in connection with their debt, particularly those that have used auction mode variable

debt. Significantly, these market conditions affect the financial markets generally, and are not specific to LG&E nor reflective of the condition of the Company.

6. LG&E is evaluating and considering a variety of actions in response to the current market conditions. These include interest rate conversions from auction mode to fixed rate or some other variable mode ("Conversions"), and placement of additional liquidity or credit support facilities, such as letters of credit, revolving credit agreements, standby credit agreements, or similar arrangements. Any such action would be taken only in accordance with existing authorization with respect to each series of debt affected.

7. However, because of evolving and uncertain market conditions, it is possible that actions under the Company's existing authority may either not be effective or constitute an insufficient response to market conditions. For example, certain structures that are pricing at attractive rates today involve issuing a letter of credit to enhance the Company's credit. If the current bond insurer is not willing to cancel its insurance policy at the Company's request making a Conversion unattractive, it may be necessary to refinance in order to implement the letter of credit structure. Additionally, there have been periods during the recent market turmoil in which insured bonds have required a higher interest rate than those without insurance. Ultimately, the Company will evaluate the costs and benefits of refinancing compared to the costs and benefits of a Conversion and will select the most favorable alternative. Thus, LG&E's response may involve the refinancing of some or all of the Company's existing auction mode pollution control debt with new debt.

8. LG&E has identified eight (8) series of existing auction mode pollution control debt as possible candidates for refinancing. As noted above, it is possible that action under existing authority from the Commission, such as Conversions, may be sufficient to address market conditions. However, because of financial market uncertainty and unpredictability, and

the significant lead time that would be involved in obtaining regulatory approval if it were determined to be advantageous to proceed with refinancing, with consequent, additional costs to the public, LG&E is requesting explicit authority to refinance the total of eight (8) series of outstanding pollution control bonds (sometimes, collectively, the "Outstanding Bonds"). Such authority would enable LG&E to effect the best remedy in each circumstance.

9. Depending upon market conditions, LG&E could initially convert interest modes on existing debt, and might subsequently choose to refinance with new debt. Such could be the case if LG&E converted modes to avoid the high rates associated with failed auctions, but determined that it was advantageous to use a structure different from that of the existing debt.

#### **The Outstanding Pollution Control Debt**

##### **Jefferson County,<sup>1</sup> Kentucky Pollution Control Revenue Bonds, 2000 Series A**

10. LG&E's obligations in connection with the Jefferson County, Kentucky Pollution Control Revenue Bonds, 2000 Series A ("Jefferson County 2000 Series A Bonds") were authorized by the Commission by Orders dated March 31, 2000 and May 18, 2000 in Case No. 2000-051 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*). Proceeds were used to provide funds to refinance the Jefferson County, Kentucky 7.45% Pollution Control Revenue Bonds, 1990 Series A. LG&E's obligations in connection with those bonds were authorized by the Commission by Order dated June 25, 1990 in Case No. 90-142. The proceeds of those bonds were used to refinance the Jefferson County, Kentucky 8-1/4% Pollution Control

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<sup>1</sup> In November 2000, the voters of Jefferson County voted to consolidate the governmental and corporate functions of Jefferson County and the City of Louisville into a new form of government known as Louisville/Jefferson County Metro Government ("Louisville Metro Government"). Louisville Metro Government commenced operation on January 6, 2003 and replaced and supersedes the government of the prior County and City. The authorizing laws provide for mandatory assumption by Louisville Metro Government of all existing contract obligations of the prior County and City, and Louisville Metro Government would accordingly be the governmental issuer of refunding bonds with respect to any existing Jefferson County bonds as well as existing Louisville Metro Government bonds.

Revenue Bonds, 1985 Series A, and LG&E's obligations with respect to those bonds were authorized by the Commission in Case No. 9356. Proceeds of the 1985 Series A Bonds were used to provide financing for a portion of the costs of purchasing and installing equipment necessary to renovate seven sulfur dioxide removal systems at LG&E's Cane Run and Mill Creek generating stations.

11. The following table shows (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions), and (iii) LG&E's expenses associated with the sale of the Jefferson County 2000 Series A Bonds:

<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
\$25,000,000	\$25,000,000	\$647,000 <sup>2</sup>

The Jefferson County 2000 Series A Bonds are subject to redemption upon the direction of LG&E at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

**Trimble County, Kentucky Pollution Control Revenue Bonds, 2000 Series A**

12. LG&E's obligations in connection with the Trimble County, Kentucky Pollution Control Revenue Bonds, 2000 Series A ("Trimble County 2000 Series A Bonds") were authorized by the Commission by Order dated July 18, 2000 in Case No. 2000-00275 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*). Proceeds were used to provide funds to refund the Trimble County, Kentucky 7.625% Pollution Control Revenue Bonds, 1990 Series A. LG&E's obligations in connection with those bonds were authorized by the Commission by Order dated October 19, 1990 in Case No. 90-271. The proceeds of the 1990

Series A Bonds were used to provide financing for a portion of the costs of the acquisition, construction, and installation of certain air and water pollution control facilities at LG&E's Trimble County generating station.

13. The following table shows (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions), and (iii) LG&E's expenses associated with the sale of the Trimble County 2000 Series A Bonds:

<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
\$83,335,000	\$83,335,000	\$1,152,000

The Trimble County 2000 Series A Bonds are subject to redemption upon the direction of LG&E at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

**Jefferson County, Environmental Facilities Revenue Bonds, 2001 Series A**

14. LG&E's obligations in connection with the Jefferson County, Environmental Facilities Revenue Bonds, 2001 Series A ("Jefferson County 2001 Series A Bonds") were authorized by the Commission by Order dated August 28, 2001 in Case No. 2001-205 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*). Proceeds were used to finance portions of the costs of solid waste recycling and abatement facilities at LG&E's Mill Creek generating station in Jefferson County.

15. The following table shows (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commission), and (iii) LG&E's expenses associated with the sale of the Jefferson County 2001 Series A Bonds:

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<sup>2</sup> Expenses shown for this, and the other series which may be refunded, include the costs of bond insurance.

<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
\$10,104,000	\$10,104,000	\$516,000

The Jefferson County 2001 Series A Bonds are subject to redemption upon the direction of LG&E at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

**Trimble County, Kentucky Pollution Control Revenue Bonds, 2002 Series A**

16. LG&E's obligations in connection with The Trimble County, Kentucky Pollution Control Revenue Bonds, 2002 Series A ("Trimble County 2002 Series A Bonds") were authorized by the Commission by Order dated August 12, 2002, in Case No. 2002-00230 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*). Proceeds were used to provide funds to refinance the Trimble County, Kentucky Pollution Control Revenue Bonds, 1990 Series B. LG&E's obligations in connection with those bonds were authorized by the Commission by Order dated October 18, 1990, in Case No. 90-271. Proceeds from these were used to provide financing for a portion of the costs of the acquisition, construction, and installation of certain air and water pollution control facilities and solid waste disposal facilities at LG&E's Trimble County generating station.

17. The following table shows (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions), and (iii) LG&E's expenses associated with the sale of the Trimble County 2002 Series A Bonds:

<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
\$41,665,000	\$41,665,000	\$1,103,000



The Trimble County 2002 Series A bonds are subject to redemption upon the direction of LG&E at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

**Louisville/Jefferson County Metro Government, Pollution Control Revenue Bonds, 2003 Series A**

18. LG&E's obligations in connection with the Louisville/Jefferson County Metro Government, Pollution Control Revenue Bonds, 2003 Series A ("Louisville Metro Government 2003 Series A Bonds") were authorized by the Commission by Order dated September 16, 2003 in Case No. 2003-00299 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*). Proceeds were used to provide funds to refinance the Jefferson County, Kentucky Pollution Control Revenue Bonds, 1993 Series B, and the Jefferson County, Kentucky Pollution Control Revenue Bonds, 1993 Series C. LG&E's obligations in connection with the preceding were authorized by the Commission by Order dated July 28, 1993 in Case No. 93-223. The 1993 Series B bonds were used to provide financing to refund the Jefferson County, Kentucky 6-1/8% Pollution Control Revenue Bonds, 1978 Series A and the Jefferson County, Kentucky 6-3/8% Pollution Control Revenue Bonds, 1979 Series A. LG&E's obligations in connection with the immediately preceding were authorized by the Commission in Case No. 7118. The 1993 Series C Bonds were used to provide financing for refunding the Jefferson County, Kentucky 9-3/4% Pollution Control Revenue Bonds, 1984 Series A. LG&E's obligations in connection with the 1984 Series A bonds were authorized by the Commission in Case No. 8802. All of the 1978, 1979 and 1984 Pollution Control Revenue Bonds were used to provide financing, or to refund Bonds which provided financing, for a portion of the costs of acquiring, constructing, and

installing certain air and water pollution control facilities and solid waste disposal facilities at LG&E's Cane Run and Mill Creek generating stations.

19. The following table shows (i) the initial public offering price, (ii) proceeds for LG&E from the sale after deducting underwriting discounts and commissions), and (iii) LG&E's expenses associated with the sale of the Louisville Metro Government 2003 Series A Bonds:

<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
\$128,000,000	\$128,000,000	\$3,373,000

The Louisville Metro Government 2003 Series A Bonds are subject to redemption upon the direction of LG&E at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

**Louisville/Jefferson County Metro Government, Pollution Control Revenue Bonds, 2005 Series A**

20. LG&E's obligations in connection with the Louisville/Jefferson County Metro Government, Pollution Control Revenue Bonds, 2005 Series A ("Louisville Metro Government 2005 Series A Bonds") were authorized by the Commission by Order dated March 17, 2005 in Case No. 2005-00046 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), and were used to refinance the Jefferson County, Kentucky Pollution Control Revenue Bonds, 1995 Series A. LG&E's obligations in connection with those bonds were authorized by the Commission by order dated July 28, 1993, in Case No. 93-223. The 1995 Series A Bonds, in turn, were used to provide financing to refund the Jefferson County, Kentucky Pollution Control Revenue Bonds, 1985 Series A, with LG&E's obligations in connection therewith authorized in Case No. 9356. Proceeds from the 1985 Series A Bonds

were used to provide financing for a portion of the costs of acquiring, constructing, and installing certain air pollution control facilities, in connection with LG&E's Mill Creek and Cane Run generating stations located in Jefferson County, Kentucky.

21. The following table shows (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions), and (iii) LG&E's expenses associated with the sale of the Louisville Metro Government 2005 Series A Bonds:

<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
\$40,000,000	\$40,000,000	\$1,093,000

The Louisville Metro Government 2005 Series A Bonds subject to redemption upon the direction of LG&E at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

**Louisville/Jefferson County Metro Government, Environmental Facilities Revenue Refunding Bonds, 2007 Series A**

22. LG&E's obligations in connection with the Louisville/Jefferson County Metro Government, Environmental Facilities Revenue Refunding Bonds, 2007 Series A ("Louisville Metro Government 2007 Series A Bonds) were authorized by the Commission by Order dated January 31, 2007 in Case No. 2006-00445 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*). Proceeds were used to fund the redemption of the Jefferson County, Kentucky Pollution Control Revenue Bonds, 1993 Series A. LG&E's obligations in connection therewith were authorized by the Commission by Order dated July 28, 1993 in Case No. 93-223. The proceeds of those bonds were used to discharge or refund the Jefferson County, Kentucky 6-

1/8% Pollution Control Revenue Bonds, 1976 Series A. LG&E's obligations in connection with the 1976 Series A Bonds were authorized by the Commission in Case No. 6592. The proceeds of those bonds were used to provide funds to finance the acquisition of certain air, solid waste and water pollution control equipment at the Company's Cane Run and Mill Creek generating station.

23. The following table shows (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions) and (iii) LG&E's expenses associated with the sale of the Louisville Metro Government 2007 Series A Bonds:

<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
\$31,000,000	\$31,000,000	\$648,000

The Louisville Metro Government 2007 Series A Bonds are subject to redemption upon the direction of LG&E at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

**Louisville/Jefferson County Metro Government, Environmental Facilities Revenue Refunding Bonds, 2007 Series B**

24. LG&E's obligations in connection with the Louisville/Jefferson County Metro Government, Environmental Facilities Revenue Refunding Bonds, 2007 Series B ("Louisville Metro Government 2007 Series B Bonds") were authorized by the Commission by Order dated January 31, 2007 in Case No. 2006-00445 (*In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*). Proceeds were used to fund the redemption of the Jefferson County, Kentucky Pollution Control Revenue Bonds, 1992 Series A. LG&E's obligations in connection with those bonds were authorized by the Commission by Order dated August 12, 1992 in Case No. 92-250,

and proceeds were used to refund the Jefferson County, 7-1/4% Pollution Control Revenue Bonds, 1975 Series A. LG&E's obligations in connection with the 1975 Series A were authorized by the Commission in Case No. 6311. Proceeds were used to provide funds to finance certain air pollution control equipment at the Company's Cane Run and Mill Creek generating station.

25. The following table shows (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions), and (iii) LG&E's expenses associated with the sale of the Louisville Metro Government 2007 Series B Bonds:

<u>Public Offering Price</u>	<u>Proceeds</u>	<u>Expenses</u>
\$35,200,000	\$35,200,000	\$610,000

The Louisville Metro Government 2007 Series B Bonds are subject to redemption upon the direction of LG&E at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

26. The Company requests authority to assume certain obligations under various agreements in principal amounts not to exceed the *Public Offering Prices* of each of the Outstanding Bonds discussed in paragraphs 10 through 25 preceding, which may be refunded, in connection with the proposed issuance of one or more series of Louisville/Jefferson County, Metro Government, Environmental Facilities Refunding Revenue Bonds (the "Louisville Metro Government Refunding Bonds"), to be appropriately designated and one or more series of Trimble County, Kentucky Environmental Facilities Refunding Revenue Bonds (the "Trimble County Refunding Bonds"), to be appropriately designated (both the Louisville Metro Government Refunding Bonds and the Trimble County Refunding Bonds, sometimes

collectively, the "Refunding Bonds"). The proceeds of the Louisville Metro Government Refunding Bonds and the Trimble County Refunding Bonds would be loaned to LG&E by Louisville Metro Government or Trimble County, as applicable, in one or more transactions to provide funds to redeem and discharge a corresponding amount of the Outstanding Bonds, within ninety (90) days of issuance of the corresponding Refunding Bonds.

27. In connection with the Refunding Bonds, LG&E would assume certain obligations under one or more loan agreements with Louisville Metro Government and Trimble County, Kentucky, respectively, and may enter into one or more guaranty agreements, bond insurance agreements and other similar undertakings guaranteeing repayment of all or any part of the obligations under one or more series of the Refunding Bonds for the benefit of the holders of such bonds.

28. The structure and documentation for the issuance of the Refunding Bonds and related agreements will be similar to that in other recent pollution control financings of LG&E approved by the Commission, except that First Mortgage Bonds will not be used to collateralize the Refunding Bonds. Additionally, provisions would be incorporated in the Bond documentation to avoid or mitigate punitive increases in interest costs ("Interest Rate Moderation Procedures") hereinafter described.

29. The Refunding Bonds would be issued pursuant to one or more indentures (each an "Indenture"), between Louisville Metro Government and the Trustee under such Indenture(s) or Trimble County and the Trustee under such Indentures, as applicable. The proceeds from the sale of the Refunding Bonds would be loaned to LG&E pursuant to one or more loan agreements between Louisville Metro Government and LG&E or Trimble County and LG&E (collectively, the "Loan Agreements").

30. The payments to be made by LG&E under the Loan Agreements for one or more series of Refunding Bonds, together with other funds available for the purpose, would be required to be sufficient to pay the principal and interest on such Refunding Bonds. The Loan Agreement(s) and the payments to be made by LG&E pursuant thereto will be assigned to the Trustee(s) to secure the payment of the principal and interest on the related Refunding Bonds. Upon issuance of a series of Refunding Bonds, LG&E may issue one or more guarantees (collectively, the "Guarantees"), in favor of the Trustee(s) guaranteeing repayment of all or any part of the obligations under such Refunding Bonds for the benefit of the holders of such Refunding Bonds.

Recent market extremes, including impairment of bond insurance companies ranked at the highest quality level by national securities rating services, have caused many public and corporate entities, including LG&E, to experience failed auctions automatically triggering abrupt, punitive interest rate spikes. To avoid such results in the future, LG&E intends to convert or refund its debt obligations from auction rates to variable rates, term rates, or long term rates, under rules pursuant to which failed remarketings will not automatically lock in punishingly high rates, but will instead be adjusted to comport with market-based rates for such securities. Failed remarketings could require bondholders to retain bonds while remarketing agents use their best efforts to remarket the bonds at rates reflecting prevailing market rates for comparable credits. Variants of this procedure could also include preauthorized "step-up" rates or formulas, which would vary based on the interest rate mode selected, limitations on increases in rates beyond preauthorized levels, and the use of preauthorized alternate rate formulas.

31. The Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. The price, maturity date(s), interest rate(s), and the redemption provisions and other terms and

provisions of each series of Refunding Bonds (including, in the event all or a portion of the Refunding Bonds initially bear a variable rate of interest, the method for determining the interest rate) would be determined on the basis of negotiations between LG&E, and Louisville Metro Government or Trimble County, as applicable, and the purchasers of such bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed three-quarters of one percent (.75%) of the principal amount of the Refunding Bonds of each series to be sold. Based upon past experience with similar financings, LG&E estimates that issuance costs, excluding underwriting fees, would be approximately \$2.3 million, if all eight series of Outstanding Bonds were refinanced individually. Efforts will be made to consolidate transactions to minimize legal and other issuance costs.

32. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Refunding Bonds may be issued initially with an interest rate that fluctuates on a weekly, monthly or other basis, as determined from time to time by LG&E. LG&E would reserve the option to convert any variable rate Refunding Bonds at a later date to other interest rate modes, including a fixed rate of interest. Refunding Bonds that bear interest at a variable rate (the "Variable Rate Pollution Control Refunding Bonds") also may be issued subject to tender by the holders thereof for redemption or purchase. In order to provide funds to pay the purchase price of such tendered Variable Rate Pollution Control Refunding Bonds, LG&E would enter into one or more Remarketing Agreements with one or more remarketing agents whereby the remarketing agent would use its best efforts to remarket such tendered Variable Rate Pollution Control Refunding Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Pollution Control Refunding Bonds, which will be 100% of the par amount of such Variable Rate Pollution Control Refunding Bonds. Thus, to the extent Variable Rate Pollution Control Refunding Bonds are issued, the documentation will be similar



to previous bonds that were issued with a variable interest rate, except that based on market developments, LG&E does not anticipate that auction mode bonds would be issued. In addition, it is more likely that a Facility, as defined and discussed in paragraph 33 below, would be an instrument other than bond insurance due to the problems the bond insurers face as described above.

33. Also, in the event that Variable Rate Pollution Control Refunding Bonds are issued, LG&E may enter into one or more liquidity facilities (the "Current Facility") with a bank or banks to be selected by LG&E (the "Bank"). The Current Facility would be a credit agreement designed to provide LG&E the ability to borrow funds with which to make payments with respect to any Variable Rate Pollution Control Refunding Bonds that have been tendered for purchase and are not remarketed. LG&E would be obligated to repay any amounts borrowed under the Current Facility. The Current Facility may be pledged for the payment of the Variable Rate Pollution Control Refunding Bonds or to constitute security thereof. The Current Facility may consist in whole or in part of such liquidity facilities. Pursuant to the Current Facility, LG&E may be required to execute and deliver to the Bank a note (the "Current Facility Note") evidencing LG&E's obligation to repay any borrowings owed to the Bank under the Current Facility.

In order to obtain terms and conditions more favorable to LG&E than those provided in the Current Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Pollution Control Refunding Bonds, LG&E may desire to be able to replace the Current Facility with (or to initially use) one or more substitute liquidity support and/or credit support facilities (the instruments providing the liquidity support and/or credit support and any subsequent replacement support facility thereof, including any replacement facility which would replace a replacement facility, are hereinafter referred to as a

“Facility”) with one or more banks, insurance companies (including municipal bond insurance companies) or other financial institutions to be selected by LG&E from time to time (each such financial institution hereinafter referred to as a “Facility Provider”). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, bond insurance or other similar arrangement designed to provide liquidity and/or credit support for the Variable Rate Pollution Control Refunding Bonds. In the event the Variable Rate Pollution Control Refunding Bonds are converted to bear interest at a fixed rate to maturity, the Current Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) may be terminated in whole or in part following the date of conversion of such series of Variable Rate Pollution Control Refunding Bonds. The estimated cost of the financings shown in paragraph 31 does not include expenses incurred for entering into any Facility; however, the impact on the overall cost of the financing would be approximately 25 basis points.

34. In connection with any Facility, LG&E may enter into one or more credit or similar agreements (“Credit Agreements”) with the Facility Provider or providers of such Facility, which would document the obligation of LG&E to reimburse or repay the subject Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending on the exact nature of a Facility, LG&E may be required to execute and deliver to the subject Facility Provider a promissory note (each such note hereinafter referred to as a “Facility Note”) evidencing LG&E’s repayment obligations to the Facility Provider under the related Credit Agreement; and the Trustee under the Indenture for the Variable Rate Pollution Control Refunding Bonds may be authorized, upon the terms set forth in such Indenture and any Credit Agreement, to draw upon the Facility for the purpose of paying the purchase price of Variable Rate Pollution Control Refunding Bonds tendered or required to be tendered for purchase in

accordance with the terms of the Indenture which are not remarketed by the remarketing agent as provided in the remarketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Pollution Control Refunding Bonds when due and paying principal, whether at maturity, on redemption, acceleration or otherwise.

35. In connection with the issuance of the Refunding Bonds, LG&E may enter into one or more interest rate hedging agreements (including an interest rate cap, swap, collar or similar agreement, collectively the "Hedging Facility") with a bank or financial institution (the "Counterparty"). The Hedging Facility would be an interest rate agreement designed to allow LG&E to actively manage and limit its exposure to variable interest rates or to lower its overall borrowing costs on any fixed rate Refunding Bonds. The Hedging Facility will set forth the specific terms for which LG&E will agree to pay the Counterparty payments and/or fees for limiting its exposure to interest rates or lowering its fixed rate borrowing costs, and the other terms and conditions of any rights or obligations thereunder. The estimated cost of the financing does not include the costs of any Hedging Facility which would be determined at the time of the hedge. However, based on current market conditions, the cost of a 3-year hedge would be approximately -108 basis points indicating that the market expects a decline in short-term rates.

36. The terms of each Facility, each Credit Agreement, each Facility Note and each Hedging Facility would be negotiated by LG&E with the respective Bank, Facility Provider or Counterparty, and would be the most favorable terms that can be negotiated by LG&E. The aggregate outstanding principal amount of the obligations of LG&E at any time under the Loan Agreements, and the Credit Facilities and related notes set forth in the immediately preceding sentence will not exceed the original aggregate principal amount of the Outstanding Bonds that are refunded plus accrued but unpaid interest and premium, if any, on such bonds.

37. No contracts have been made for the disposition of any of the securities which LG&E proposes to issue, or for the proceeds of such sale.

38. Attached as Exhibit 3 to this Application are copies of the pertinent sections of the official statements describing the redemption provisions for the Outstanding Bonds.

39. LG&E shall, as soon as reasonably practicable after the issuance of any Refunding Bonds referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities, the price paid therefore, the interest rate(s) (and, if applicable, their method of determination), and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

40. Exhibit 4 to this Application contains the financial exhibit required by 807 KAR 5:001, Section 11(2)(a), as described by 807 KAR 5:001, Section 6. It also contains information required by 807 KAR 5:001, Section 11(2)(b).

41. Exhibit 5 to this Application consists of net present value analyses of the refinancing alternatives based on current market conditions for the various alternatives. While the analyses show the results for each alternative for each bond series, the Company expects to use a mix of alternatives. This diversity is prudent, given the limited availability of letter of credit facilities in the current market, and avoids excess exposure to any one market segment.

42. A certified copy of LG&E's Board of Directors resolution authorizing the assumption of obligations under the Loan Agreements, and all transactions related thereto and discussed in this Application, will be filed as a supplement to this Application.

43. Other requirements of the Commission's regulation regarding this application, 807 KAR 5:001, Section 11, including (1)(b) regarding the amount and kind of notes, etc., and (1)(c) regarding the use to be made of the proceeds, have been supplied in the extensive discussion above in paragraphs 3 through 36 of this application. In order to allow the Company

flexibility to mitigate the impact of current market conditions, the Company respectfully requests that the Commission process this application as expeditiously as practicable.

**WHEREFORE**, Louisville Gas and Electric Company respectfully requests that the Commission enter its Order authorizing it to issue securities and to execute, deliver and perform the obligations of LG&E under the Loan Agreements, and any Remarketing Agreements, and Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes set forth in this application. Louisville Gas and Electric Company further requests that the Order of the Commission specifically include provisions stating:

1. LG&E is authorized to execute, deliver and perform its obligations under the Loan Agreements with Louisville Metro Government and Trimble County, Kentucky and under any guarantees, remarketing agreements, hedging agreements, bond insurance agreements, credit agreements and such other agreements and documents as set forth in its application, including interest rate moderation provisions contained therein, and to perform the transactions contemplated by all such agreements, including, but not limited to, borrowings or advances, and the related repayment or reimbursement obligations, under the Loan Agreements, current Facilities and the Facilities.

2. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

3. LG&E shall agree only to such terms and prices that are consistent with the parameters set out in its application.

4. LG&E shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or commissions, or other compensation, involved in the issuance and distribution thereof. In

addition, LG&E shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance. The explanation shall include a description of the specific interest rate management techniques and interest rate management agreements used by LG&E for each issuance, as well as copies of executed interest rate management agreements. If a variable interest rate is chosen, LG&E shall file a detailed description of the criteria to be periodically applied in determining whether the variable rate should be converted to a fixed one.

5. In addition, LG&E shall, within thirty (30) days of issuance, provide a detailed explanation of why it was decided to refund any series of Outstanding Bonds refunded, rather than take other action to mitigate market conditions or why refunding was taken subsequent to or in conjunction with such other action.

Respectfully submitted,



Kendrick R. Riggs  
John Wade Hendricks  
Deborah T. Eversole  
Stoll Keenon Ogden PLLC  
2000 PNC Plaza  
500 West Jefferson Street  
Louisville, Kentucky 40202  
(502) 333-6000

Allyson Sturgeon  
E.ON U.S. LLC  
220 West Main Street  
Louisville, KY 40202  
(502) 627-2088

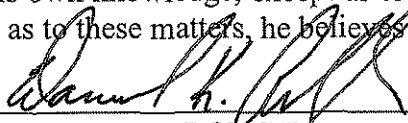
Counsel for Louisville Gas and Electric Company

**VERIFICATION**

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON

Daniel K. Arbough being first duly sworn, deposes and says that he is Treasurer for Louisville Gas and Electric Company, that he has read the foregoing Application and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to these matters, he believes them to be true.

  
\_\_\_\_\_  
DANIEL K. ARBOUGH

Subscribed and sworn before me this 4<sup>th</sup> day of April, 2008

My Commission Expires:

  
\_\_\_\_\_  
NOTARY PUBLIC, STATE AT LARGE





LOUISVILLE GAS AND ELECTRIC COMPANY  
(807 KAR 5:001, Section 11, Item 1 (a))

A DESCRIPTION OF APPLICANT'S PROPERTY, INCLUDING A  
STATEMENT OF THE NET ORIGINAL COST OF THE PROPERTY  
AND THE COST THEREOF TO APPLICANT

January 31, 2008

The applicant's generating, transmission and distribution systems described herein are calculated annually. As of December 31, 2007, the applicant owned and operated thermal-electric generating units with an aggregate station rating totaling 3,083 Mw. This total consisted of 2,418 Mw of steam generation capacity and 665 Mw of combustion turbine peaking units. The applicant also owned a 50 Mw hydroelectric generating station, the operation of which is affected by the water level and flow of the Ohio River.

The applicant's electric transmission system included substation capacity of approximately 11,900 MVA and approximately 894 miles of lines, and is interconnected with the systems of neighboring utilities. The applicant's electric distribution system included substation capacity of approximately 4,940 MVA, approximately 3,927 miles of overhead lines and approximately 2,261 miles of underground conduit.

The applicant operated underground gas storage facilities with a current working gas capacity of approximately 15.1 billion cubic feet used for seasonal and peak-day augmentation of winter pipe line supply.

The applicant's gas transmission system included 256 miles of transmission mains, and the gas distribution system includes 4,203 miles of distribution mains.

Other properties include an office building, service centers, warehouses, garages and other structures and equipment, the use of which is common to both the electric and gas departments.

The net original cost of the property and cost thereof to the applicant at January 31, 2008, was:

	<u>Electric</u>	<u>Gas</u>	<u>Common</u>	<u>Total</u>
Original Cost	\$ 3,507,227,647	\$ 614,865,882	\$ 207,912,191	\$ 4,330,005,720
Less Reserve for Depreciation	\$ 1,580,777,530	\$ 207,407,989	\$ 81,027,804	\$ 1,869,213,323
Net Original Cost	\$ 1,926,450,117	\$ 407,457,893	\$ 126,884,387	\$ 2,460,792,397
Allocation of Common To Electric and Gas	\$ 93,894,446	\$ 32,989,941	\$ (126,884,387)	\$ -
Total	\$ 2,020,344,563	\$ 440,447,834	\$ -	\$ 2,460,792,397





Stephanie L. Stumbo  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
Frankfort, Kentucky 40602

**E.ON U.S. LLC**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
www.eon-us.com

Lonnie E. Bellar  
Vice President  
T 502-627-4830  
F 502-217-2109  
lonnie.bellar@eon-us.com

March 17, 2008

**RE: Case No. 2000-052 (In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**

**Case No. 2006-00414 (In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**

**Case No. 2000-051 (In the Matter of: The Application of Louisville Gas and Electric Company, for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**

Dear Ms. Stumbo:

By letter dated February 25, 2008, and in reference to Case Nos. 2007-00115, 2006-00445, and 2005-00046, I advised the Commission regarding actions that Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (KU and LG&E, collectively, the "Companies") were preparing to take to mitigate the impact of recent market conditions on certain of their variable rate tax-exempt pollution control bonds.

In my February 25 letter, I indicated that the Companies, in consultation with their financial and legal advisors and depending upon the developing situation in the financial markets, might also decide to take action with respect to other series of outstanding debt. This is to advise the Commission that the Companies have decided to take such additional action. The financings affected by this action were approved by the Commission in the proceedings referenced above.

Stephanie L. Stumbo  
March 17, 2008

The Companies plan to take the following specific actions:

For Kentucky Utilities Company:

KU Carroll County 2006 Series C (\$16,693,630) (authorized in Case No. 2006-00414)

KU Mercer County 2000 Series A (\$12,900,000) (authorized in Case No. 2000-052)

- convert from auction mode to 7 day variable mode

For Louisville Gas and Electric Company:

LG&E Jefferson County 2000 Series A (\$25,000,000) (authorized in Case No. 2000-051)

- convert from auction mode to 7 day variable mode

The Companies have authority under the Commission's Orders in the respective cases cited above to undertake these actions, and the procedures to effect these conversions of interest rate modes are set out in the documentation for each bond series. In addition, following the conversions, it is anticipated that the LG&E bonds will be temporarily repurchased and held by LG&E, and the KU bonds will be temporarily repurchased and held by KU. In neither case would the bonds be retired, but held with a view to refinancing with new debt in the future. Prior to any such refinancing, or other action requiring the Commission's authorization, an application seeking authority for the proposed action will be filed with the Commission.

As was the case with the actions cited in my February 25<sup>th</sup> letter, the Companies are taking these actions in response to conditions in the financial markets. These are conditions affecting the financial markets generally, and are not specific to the Companies nor reflective of their financial condition.

Please do not hesitate to contact the undersigned if the Commission has any questions or requires additional information.

Sincerely,



Lonnie E. Bellar



Elizabeth O'Donnell  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
Frankfort, Kentucky 40602

**E.ON U.S. LLC**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
www.eon-us.com

Lonnie E. Bellar  
Vice President  
T 502-627-4830  
F 502-217-2109  
lonnie.bellar@eon-us.com

February 25, 2008

**RE: Case No. 2007-00115 (In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**  
**Case No. 2006-00445 (In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**  
**Case No. 2005-00046 (In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations)**

Dear Ms. O'Donnell:

This is to advise the Commission regarding actions that Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (KU and LG&E collectively, the "Companies") are preparing to take to mitigate the impact of recent market conditions on certain of their variable rate tax-exempt pollution control bonds. The financings affected were approved by the Commission in the proceedings referenced above. As you may be aware, several bond insurers, such as Ambac, have recently had their credit ratings downgraded by the rating agencies. These credit downgrades were the result of the insurers' diversification into insuring riskier types of debt, such as securities backed by subprime home mortgages. KU and LG&E have used bond insurance in connection with variable rate pollution control debt in some instances, in order to obtain lower interest rates for that debt. As a result of these downgrades the Companies face higher interest rates on those series of their variable rate debt. In several cases, these market conditions have also led to failed auctions for auction mode variable debt which results in the interest rate being set pursuant to the terms of the indenture. A failed auction is not a default pursuant to the terms of the financing documents. These developments

have affected many companies that have used bond insurance in connection with their debt, or that have auction mode variable debt outstanding. The market conditions that have created this situation affect the financial markets generally, and are neither specific to KU and LG&E nor reflective of the condition of either company.

In response to these market conditions, the companies plan to take the following specific actions:

For Kentucky Utilities Company:

KU Carroll County 2007 Series A (\$17,875,000), and  
KU Trimble County 2007 Series A (\$8,927,000) (both  
authorized in Case No. 2007-00115)  
- convert from auction rate to fixed rate to maturity

For Louisville Gas and Electric Company:

LG&E Louisville Metro 2007 Series A (\$31,000,000), and  
LG&E Louisville Metro 2007 Series B (\$35,200,000) (both  
authorized in Case No. 2006-00445)  
and  
LG&E Louisville Metro 2005 Series A (\$40,000,000)  
(authorized in Case No. 2005-00046)  
- convert from auction rate to 7 day variable mode

The Companies have authority under the Commission's Orders in the respective cases cited above to undertake these actions, and the procedures to effect these conversions of interest rate modes are set out in the documentation for each bond series. In addition, following the conversion it is anticipated that the LG&E bonds, but not the KU bonds, would be temporarily repurchased and held by LG&E (but not retired), with a view to refinancing with new debt in the future. Prior to such refinancing by LG&E, or other action requiring Commission authorization, an application seeking authority for the proposed action will be filed with the Commission.

LG&E and KU have chosen these actions in consultation with their financial and legal advisors, and understand that other utilities and municipal bond issuers nationwide are currently considering or implementing similar steps. Depending upon the developing situation in the financial markets, KU and LG&E may also decide to take action with respect to other series of outstanding debt. We will advise the Commission of any further action, and apply to the

Elizabeth O'Donnell  
February 25, 2008

Commission for authorization for any action that requires approval by the Commission.

Please do not hesitate to contact the undersigned if the Commission has any questions or requires additional information.

Sincerely,

A handwritten signature in cursive script that reads "Lonnie E. Bellar". The signature is written in black ink and is positioned above the printed name.

Lonnie E. Bellar





**\$25,000,000**  
**COUNTY OF JEFFERSON, KENTUCKY**  
**POLLUTION CONTROL REVENUE BONDS,**  
**2000 SERIES A (LOUISVILLE GAS AND**  
**ELECTRIC COMPANY PROJECT) (Non-AMT)**  
**Due: May 1, 2027**

**\$12,900,000**  
**COUNTY OF MERCER, KENTUCKY SOLID**  
**WASTE DISPOSAL FACILITY REVENUE**  
**BONDS, 2000 SERIES A (KENTUCKY**  
**UTILITIES COMPANY PROJECT) (AMT)**  
**Due: May 1, 2023**

Dated: Date of Original Issuance

First Auction Date:

June 21, 2000

First Interest Payment Date:

June 22, 2000

The Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project) (the "Jefferson County Bonds") issued by the County of Jefferson, Kentucky ("Jefferson County") will be special obligations of Jefferson County, payable solely from and secured by payments to be received by Jefferson County pursuant to a Loan Agreement with Louisville Gas and Electric Company ("LG&E"), except as payable from proceeds of the Jefferson County Bonds or investment earnings thereon. The Jefferson County Bonds will not constitute general obligations of Jefferson County or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky. The Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) (the "Mercer County Bonds" and, together with the Jefferson County Bonds, the "2000 Bonds") issued by the County of Mercer, Kentucky ("Mercer County") will be special obligations of Mercer County, payable solely from and secured by payments to be received by Mercer County pursuant to a Loan Agreement with Kentucky Utilities Company ("KU" and, together with LG&E, the "Companies"), except as payable from proceeds of the Mercer County Bonds or investment earnings thereon. The Mercer County Bonds will not constitute general obligations of Mercer County or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky. Each issue of 2000 Bonds is being separately offered. Accordingly, the issuance and sale of one issue are not dependent upon the issuance and sale of the other issue.

Until the Release Date (generally, the earlier of the date upon which the Bond Insurer consents to the release of first mortgage bond collateral of a Company or the date that all of the prior first mortgage bonds of the related Company have been retired), principal of, and interest on, the Jefferson County Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of

**LOUISVILLE GAS AND ELECTRIC COMPANY**

Until the Release Date, principal of, and interest on, the Mercer County Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of

**KENTUCKY UTILITIES COMPANY**

See "THE 2000 BONDS — Security; Release Date" and "THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. On the Release Date, the related issue of 2000 Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by LG&E or KU under its related Loan Agreement, which will become an unsecured general obligation of LG&E or KU, as the case may be, and will rank on a parity with other unsecured indebtedness of such Company.

Payment of the principal of and interest on each issue of 2000 Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of that issue of 2000 Bonds.

**Ambac**

The 2000 Bonds will accrue interest from the date of original issuance and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. Each issue of 2000 Bonds will continue to bear interest at the Dutch Auction Rate until the Conversion of that issue to a different Interest Rate Mode or until maturity. Prospective purchasers of the 2000 Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell 2000 Bonds of the related issue based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in 2000 Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

Each issue of 2000 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the 2000 Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$50,000 and integral multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the 2000 Bonds. See the information contained under the caption "THE 2000 BONDS — Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the 2000 Bonds will be paid by The Bank of New York, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the 2000 Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC Participants and Indirect Participants, as more fully described herein.

PRICE: 100%

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT", Bond Counsel is of the opinion that, under current law, interest on each issue of 2000 Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any 2000 Bond during any period in which it is held by a "substantial user" or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Mercer County Bonds will be an item of tax preference and interest on the Jefferson County Bonds will not be an item of tax preference, in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the corporate alternative minimum tax on a portion of such interest in the case of the Jefferson County Bonds and imposition of the branch profits tax on a portion of such interest in the case of both issues of 2000 Bonds. Bond Counsel is further of the opinion that interest on each issue of 2000 Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, principal of each issue of 2000 Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of each issue of the 2000 Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the 2000 Bonds. See "TAX TREATMENT" herein.

Each issue of 2000 Bonds is offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Harper, Ferguson & Davis, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Companies by their counsel, Gardner, Carton & Douglas, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Companies, for the Issuers by their respective County Attorneys, and for the Underwriter by its counsel, Jones, Day, Reavis & Pogue, Chicago, Illinois. It is expected that the 2000 Bonds will be available for delivery to DTC in New York, New York on or about May 19, 2000.

**MORGAN STANLEY DEAN WITTER**

May 18, 2000

EXHIBIT 3

surrender of such 2000 Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the 2000 Bonds will be deemed satisfied when the ownership rights in the 2000 Bonds are transferred by *Direct Participants* on the records of DTC to the participant account of the Tender Agent.

## **Redemptions**

### *Optional Redemption.*

(i) Whenever the Interest Rate Mode for the 2000 Bonds is the Daily Rate or the Weekly Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(ii) Whenever the Interest Rate Mode for a 2000 Bond is the Flexible Rate, such 2000 Bond will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that 2000 Bond.

(iii) Whenever the Interest Rate Mode for the 2000 Bonds is the Dutch Auction Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Date (as defined in APPENDIX B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(iv) Whenever the Interest Rate Mode for the 2000 Bonds is the Semi-Annual Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(v) Whenever the Interest Rate Mode for the 2000 Bonds is the Annual Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(vi) Whenever the Interest Rate Mode for the 2000 Bonds is the Long Term Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	101%, declining by 1% on the next succeeding anniversary of the first day of the redemption period and thereafter 100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the 2000 Bonds will not adversely affect the exclusion from gross income of interest on the 2000 Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in its judgment.

*Extraordinary Optional Redemption in Whole.* The 2000 Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the 2000 Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date the 2000 Bonds are issued, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the generating station where any of the related Project is located have occurred, in the judgment of the Company, render the continued operation of such generating station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the 2000 Bonds, including but not limited to changes in clean air or other air and water pollution

control requirements or solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the 2000 Bonds requires the Company to cease a substantial part of its operation at the generating station where any of the related Project is located to such extent that the Company will be prevented from carrying on its normal operations at such generating station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The 2000 Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the 2000 Bonds from gross income for federal income tax purposes. See "THE LOAN AGREEMENTS -- Maintenance; Damage, Destruction and Condemnation". Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the 2000 Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the 2000 Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The 2000 Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination Taxability". As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a 2000 Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the 2000 Bonds, the interest on the 2000 Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a 2000 Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2000 Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate.

No Determination of Taxability described above will result from the inclusion of interest on any 2000 Bond in the computation of minimum or indirect taxes. All of the 2000 Bonds of an issue are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such 2000 Bonds would have the result that interest payable on the remaining 2000 Bonds outstanding of such issue after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the 2000 Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any 2000 Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includible in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the 2000 Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their 2000 Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, 2000 Bonds will not be redeemed as described herein.

*Mandatory Redemption: Failure to Pay and Discharge Prior Bonds.* The 2000 Bonds are also subject to mandatory redemption by the Issuer in whole at a redemption price equal to 100% of the principal amount thereof plus accrued interest on or prior to the fifteenth day after the date which is the 90th day after the issuance of the 2000 Bonds if, on or prior to such 90th day, the Company has not caused the payment and discharge of the related issue of Prior Bonds, in accordance with the indenture or indentures of trust under which the related issue of Prior Bonds were issued.

*General Redemption Terms.* Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the 2000 Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the 2000 Bonds is the Dutch Auction Rate) but not more than 60 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any 2000 Bond will not affect the validity of any proceedings for the redemption of any other 2000 Bond. No further interest will accrue on the principal of any 2000 Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. So long as the 2000 Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuers, the Companies and the Underwriter make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the 2000 Bonds and the 2000 Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the

**\$83,335,000**  
**County of Trimble, Kentucky**  
**Pollution Control Revenue Bonds,**  
**2000 Series A (Louisville Gas and**  
**Electric Company Project)**

Dated: Date of Original Issuance  
Due: August 1, 2030

First Auction Date: September 12, 2000  
First Interest Payment Date: September 13, 2000

The Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project) (the "2000 Bonds") issued by the County of Trimble, Kentucky (the "Issuer") will be special obligations of the Issuer, payable solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

**LOUISVILLE GAS AND ELECTRIC COMPANY**

(the "Company"), except as payable from proceeds of the 2000 Bonds or investment earnings thereon. The 2000 Bonds will not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky.

Until the Release Date (generally, the earlier of the date upon which the Bond Insurer consents to the release of first mortgage bond collateral of the Company or the date that all of the prior first mortgage bonds of the Company have been retired), principal of, and interest on, the 2000 Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company. See "THE 2000 BONDS - Security: Release Date" and "THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. **On the Release Date, the 2000 Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company.**

Payment of the principal of and interest on the 2000 Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2000 Bonds.

**Ambac**

The 2000 Bonds will accrue interest from the date of original issuance and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. The 2000 Bonds will continue to bear interest at the Dutch Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. Prospective purchasers of the 2000 Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell 2000 Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in 2000 Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The 2000 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the 2000 Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$50,000 and integral multiples thereof (except as described herein). Purchasers will not receive certificates representing their beneficial interest in the 2000 Bonds. See the information contained under the caption "THE 2000 BONDS - Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the 2000 Bonds will be paid by The Bank of New York, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the 2000 Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC Participants and Indirect Participants, as more fully described herein.

**PRICE: 100%**

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the 2000 Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any 2000 Bond during any period in which it is held by a "substantial user" or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the 2000 Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on the 2000 Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, principal of the 2000 Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the 2000 Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the 2000 Bonds. See "TAX TREATMENT" herein.

The 2000 Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Harper, Ferguson & Davis, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Gardner, Carton & Douglas, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriters by their counsel, Jones, Day, Reavis & Pogue, Chicago, Illinois. It is expected that the 2000 Bonds will be available for delivery to DTC in New York, New York on or about August 9, 2000.

**J.P. Morgan & Co.**

August 3, 2000

**Goldman, Sachs & Co.**

When a book-entry-only system is in effect, the requirement for physical delivery of the 2000 Bonds will be deemed satisfied when the ownership rights in the 2000 Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

## Redemptions

### Optional Redemption.

(i) Whenever the Interest Rate Mode for the 2000 Bonds is the Daily Rate or the Weekly Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(ii) Whenever the Interest Rate Mode for a 2000 Bond is the Flexible Rate, such 2000 Bond will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that 2000 Bond.

(iii) Whenever the Interest Rate Mode for the 2000 Bonds is the Dutch Auction Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Date (as defined in APPENDIX B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(iv) Whenever the Interest Rate Mode for the 2000 Bonds is the Semi-Annual Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(v) Whenever the Interest Rate Mode for the 2000 Bonds is the Annual Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(vi) Whenever the Interest Rate Mode for the 2000 Bonds is the Long Term Rate, the 2000 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	101%, declining by 1% on the next succeeding anniversary of the first day of the redemption period and thereafter 100%
Less than 11 years	Non-callable	Non-callable



Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the 2000 Bonds will not adversely affect the exclusion from gross income of interest on the 2000 Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in its judgment.

Extraordinary Optional Redemption in Whole. The 2000 Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the 2000 Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date the 2000 Bonds are issued, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the generating station where any of the Project is located have occurred, in the judgment of the Company, render the continued operation of such generating station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the 2000 Bonds, including but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the 2000 Bonds requires the Company to cease a substantial part of its operation at the generating station where any of the Project is located to such extent that the Company will be prevented from carrying on its normal operations at such generating station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The 2000 Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from

insurance or any condemnation award received by the Issuer, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the 2000 Bonds from gross income for federal income tax purposes. See "THE LOAN AGREEMENT -- Maintenance; Damage, Destruction and Condemnation." Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the 2000 Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the 2000 Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The 2000 Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a 2000 Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the 2000 Bonds, the interest on the 2000 Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a 2000 Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2000 Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any 2000 Bond in the computation of minimum or indirect taxes. All of the 2000 Bonds of an issue are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such 2000 Bonds would have the result that interest payable on the remaining 2000 Bonds outstanding of such issue after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the 2000 Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any 2000 Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includible in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate

delivered in connection therewith, the 2000 Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their 2000 Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, 2000 Bonds will not be redeemed as described herein.

*Mandatory Redemption; Failure to Pay and Discharge Prior Bonds.* The 2000 Bonds are also subject to mandatory redemption by the Issuer in whole at a redemption price equal to 100% of the principal amount thereof plus accrued interest on or prior to the fifteenth day after the date which is the 90th day after the issuance of the 2000 Bonds if, on or prior to such 90th day, the Company has not caused the payment and discharge of the Prior Bonds, in accordance with the indenture or indentures of trust under which the Prior Bonds were issued.

*General Redemption Terms.* Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the 2000 Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the 2000 Bonds is the Dutch Auction Rate) but not more than 45 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any 2000 Bond will not affect the validity of any proceedings for the redemption of any other 2000 Bond. No further interest will accrue on the principal of any 2000 Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. So long as the 2000 Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co. While the 2000 Bonds bear interest at a Dutch Auction Rate, any redemption of less than all of the outstanding 2000 Bonds will be made first from the 2000 Bond in the principal amount of \$35,000 to be held by J.P. Morgan & Co. Incorporated, as Broker-Dealer.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Underwriters make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the 2000 Bonds and the 2000 Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the 2000 Bonds will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. So long as the 2000 Bonds are maintained in book-entry form with DTC, the following procedures will be applicable with respect to the 2000 Bonds.

**\$10,104,000**  
**COUNTY OF JEFFERSON, KENTUCKY**  
**ENVIRONMENTAL FACILITIES REVENUE BONDS,**  
**2001 SERIES A (LOUISVILLE GAS AND**  
**ELECTRIC COMPANY PROJECT)**

**Dated: Date of Original Issuance**  
**Due: September 1, 2027**

**First Auction Date: September 17, 2001**  
**First Interest Payment Date: September 18, 2001**

The Environmental Facilities Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) (the "2001 Bonds") issued by the County of Jefferson, Kentucky (the "Issuer") will be special and limited obligations of the Issuer, payable solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

**LOUISVILLE GAS AND ELECTRIC COMPANY**

(the "Company"), except as payable from proceeds of the 2001 Bonds or investment earnings thereon. The 2001 Bonds will not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky.

Until the Release Date (generally, the earlier of the date upon which the Bond Insurer consents to the release of first mortgage bond collateral of the Company or the date that all of the prior first mortgage bonds of the Company (other than the First Mortgage Bonds securing the 2001 Bonds and the First Mortgage Bonds, Pollution Control Series Y and Z) have been retired), principal of, and interest on, the 2001 Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company.

See "THE 2001 BONDS—Security; Release Date" and "THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. On the Release Date, the 2001 Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company.

Payment of the principal of and interest on the 2001 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2001 Bonds.

**Ambac**

The 2001 Bonds will accrue interest from the date of original issuance and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. The 2001 Bonds will continue to bear interest at the Dutch Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. Prospective purchasers of the 2001 Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell 2001 Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in 2001 Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The 2001 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the 2001 Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$1,000 and integral multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the 2001 Bonds. See the information contained under the caption "THE 2001 BONDS — Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the 2001 Bonds will be paid by BNY Trust Company of Missouri, as Trustee, to Cede & Co., as nominee of DTC, as long as Cede & Co. is the registered owner of the 2001 Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC Participants and Indirect Participants, as more fully described herein.

PRICE: 100%

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the 2001 Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any 2001 Bond during any period in which it is held by a "substantial user" or a "related person" as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the 2001 Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on the 2001 Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, principal of the 2001 Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the 2001 Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the 2001 Bonds. See "TAX TREATMENT" herein.

The 2001 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Harper, Ferguson & Davis, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones, Day, Reavis & Pogue, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriter by its counsel, Winston & Strawn, Chicago, Illinois. It is expected that the 2001 Bonds will be available for delivery to DTC in New York, New York on or about September 11, 2001.

**MORGAN STANLEY**

September 4, 2001

maintain such financing arrangements which may be discontinued at any time without notice. The First Mortgage Bonds and the Bond Insurance Policy are not intended to provide a direct source of liquidity to pay the purchase price of 2001 Bonds tendered for purchase pursuant to the Indenture.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all 2001 Bonds with respect to which the Remarketing Agent notified the Tender Agent were remarketed will not result in an Event of Default under the Indenture until the opening of business on the next succeeding Business Day unless the Company fails to provide sufficient funds to pay such purchase price by the opening of business on such next succeeding Business Day. If sufficient funds are not available for the purchase of all tendered 2001 Bonds, no purchase of 2001 Bonds will be consummated, but failure to consummate such purchase will not be deemed to be an Event of Default under the Indenture if sufficient funds have been provided in a timely manner by the Company to the Tender Agent for such purpose.

### **Payment of Purchase Price**

When a book-entry-only system is not in effect, payment of the purchase price of any 2001 Bond will be payable (and delivery of a replacement 2001 Bond in exchange for the portion of any 2001 Bond not purchased if such 2001 Bond is purchased in part will be made) on the Purchase Date upon delivery of such 2001 Bond to the Tender Agent on such Purchase Date; provided that such 2001 Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of 2001 Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of 2001 Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of 2001 Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any 2001 Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any 2001 Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such 2001 Bond until a satisfactory instrument is delivered.

If the registered owner of any 2001 Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such 2001 Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such 2001 Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such 2001 Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such 2001 Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the 2001 Bonds will be deemed satisfied when the ownership rights in the 2001 Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

### **Redemptions**

#### Optional Redemption.

(i) Whenever the Interest Rate Mode for the 2001 Bonds is the Daily Rate or the Weekly Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(ii) Whenever the Interest Rate Mode for a 2001 Bond is the Flexible Rate, such 2001 Bond will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that 2001 Bond.

(iii) Whenever the Interest Rate Mode for the 2001 Bonds is the Dutch Auction Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Date (as defined in APPENDIX B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(iv) Whenever the Interest Rate Mode for the 2001 Bonds is the Semi-Annual Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(v) Whenever the Interest Rate Mode for the 2001 Bonds is the Annual Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(vi) Whenever the Interest Rate Mode for the 2001 Bonds is the Long Term Rate, the 2001 Bonds will be subject to redemption at the option of the Issuer, upon the direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	101%, declining by 1% on the next succeeding anniversary of the first day of the redemption period and thereafter 100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the 2001 Bonds will not adversely affect the exclusion from gross income of interest on the 2001 Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in its judgment.

Extraordinary Optional Redemption in Whole. The 2001 Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the 2001 Bonds with respect to the

Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date the 2001 Bonds are issued, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Generating Station where any of the Project is located have occurred, which, in the judgment of the Company, render the continued operation of such Generating Station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the 2001 Bonds, including but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the 2001 Bonds requires the Company to cease a substantial part of its operation at the Generating Station where any of the Project is located to such extent that the Company will be prevented from carrying on its normal operations at such Generating Station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The 2001 Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the 2001 Bonds from gross income for federal income tax purposes. See "THE LOAN AGREEMENT — Maintenance; Damage, Destruction and Condemnation." Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the 2001 Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the 2001 Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The 2001 Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a 2001 Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company



participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the 2001 Bonds, the interest on the 2001 Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a 2001 Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2001 Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any 2001 Bond in the computation of minimum or indirect taxes. All of the 2001 Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such 2001 Bonds would have the result that interest payable on the remaining 2001 Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the 2001 Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any 2001 Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the 2001 Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their 2001 Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, 2001 Bonds will not be redeemed as described herein.

General Redemption Terms. Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the 2001 Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the 2001 Bonds is the Dutch Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any 2001 Bond will not affect the validity of any proceedings for the redemption of any other 2001 Bond. No further interest will accrue on the principal of any 2001 Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. So long as the 2001 Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.



\$41,665,000  
COUNTY OF TRIMBLE, KENTUCKY  
POLLUTION CONTROL REVENUE BONDS,  
2002 SERIES A, DUE OCTOBER 1, 2032  
(LOUISVILLE GAS AND ELECTRIC  
COMPANY PROJECT)  
DATED: Date of Original Issuance

The Pollution Control Revenue Bonds, 2002 Series A (Louisville Gas and Electric Company Project) (the "Bonds") will be special and limited obligations of Trimble County, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

LOUISVILLE GAS AND ELECTRIC COMPANY

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky.

Until the Release Date (generally, the date upon which the Bond Insurer consents to the release of first mortgage bond collateral of the Company as security for the Bonds, provided that in no event shall that date be later than the date that all of the prior first mortgage bonds of the Company (other than the First Mortgage Bonds securing the Bonds and the First Mortgage Bonds, Pollution Control Series Y, Z, AA, BB, CC, DD and EE) have been retired), principal of, and interest on, the Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company. See "SUMMARY OF THE BONDS—Security; Release Date; Limitation on Liens" and "SUMMARY OF THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. On the Release Date, the Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become unsecured general obligations of the Company, and will rank on a parity with other unsecured indebtedness of the Company. From and after the Release Date, the Company will covenant not to incur, assume or guarantee any secured indebtedness other than as permitted in the Loan Agreement. See "SUMMARY OF THE BONDS—Security; Release Date; Limitation on Liens."

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

**Ambac**

The Bonds will accrue interest from the date of original issuance and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. The Bonds will continue to bear interest at the Dutch Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. While the Bonds bear interest at the Dutch Auction Rate, the Bonds will not be subject to purchase on demand of the owners thereof. Prospective purchasers of the Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the Bonds. See the information contained under the caption "SUMMARY OF THE BONDS — Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described herein.

PRICE: 100%

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the Bonds. See "TAX TREATMENT" herein.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Harper, Ferguson & Davis, a division of Ogden Newell & Welch PLLC, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones, Day, Reavis & Pogue, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriter by its counsel, Winston & Strawn, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about October 23, 2002.

UBS PaineWebber Inc.

the Indenture or the Loan Agreement requiring the Company to maintain such financing arrangements which may be discontinued at any time without notice. The First Mortgage Bonds and the Bond Insurance Policy are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase pursuant to the Indenture.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all Bonds with respect to which the Remarketing Agent notified the Tender Agent were remarketed will not result in an Event of Default under the Indenture until the opening of business on the next succeeding Business Day unless the Company fails to provide sufficient funds to pay such purchase price by the opening of business on such next succeeding Business Day. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase of Bonds will be consummated, but failure to consummate such purchase will not be deemed to be an Event of Default under the Indenture if sufficient funds have been provided in a timely manner by the Company to the Tender Agent for such purpose.

### **Payment of Purchase Price**

When a book-entry-only system is not in effect, payment of the purchase price of any Bond will be payable (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part will be made) on the Purchase Date upon delivery of such Bond to the Tender Agent on such Purchase Date; provided that such Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

### **Redemptions**

#### *Optional Redemption.*

(i) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(ii) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that Bond.

(iii) Whenever the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Date (as defined in APPENDIX B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(iv) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(v) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(vi) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in its judgment.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property,

income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Generating Station have occurred, which, in the judgment of the Company, render the continued operation of such Generating Station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such Generating Station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes. See "SUMMARY OF THE LOAN AGREEMENT — Maintenance; Damage, Destruction and Condemnation." Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal

exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

General Redemption Terms. Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the Bonds is the Dutch Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Underwriter make no representation as to the accuracy of such information.*

**\$128,000,000**  
**LOUISVILLE/JEFFERSON COUNTY**  
**METRO GOVERNMENT, KENTUCKY**  
**POLLUTION CONTROL REVENUE BONDS,**  
**2003 SERIES A, DUE OCTOBER 1, 2033**  
**(LOUISVILLE GAS AND ELECTRIC COMPANY PROJECT)**  
**DATED: Date of Original Issuance**

The Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) (the "Bonds") will be special and limited obligations of Louisville/Jefferson County Metro Government, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

**LOUISVILLE GAS AND ELECTRIC COMPANY**

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky.

Until the Release Date (generally, the date upon which the Bond Insurer consents to the release of first mortgage bond collateral of the Company as security for the Bonds, provided that in no event shall that date be later than the date that all of the prior first mortgage bonds of the Company (other than the First Mortgage Bonds securing the Bonds and the First Mortgage Bonds, Pollution Control Series Y, Z, AA, BB, CC, DD, EE and FF) have been retired), principal of, and interest on, the Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company. See "SUMMARY OF THE BONDS—Security; Release Date; Limitation on Liens" and "SUMMARY OF THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. On the Release Date, the Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become unsecured general obligations of the Company, and will rank on a parity with other unsecured indebtedness of the Company. From and after the Release Date, the Company will covenant not to incur, assume or guarantee any secured indebtedness other than as permitted in the Loan Agreement. See "SUMMARY OF THE BONDS—Security; Release Date; Limitation on Liens."

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by XL Capital Assurance Inc. simultaneously with the delivery of the Bonds.



The Bonds will accrue interest from the date of original issuance and will initially bear interest at a Dutch Auction Rate determined pursuant to the Dutch Auction Procedures described in APPENDIX B hereto. The Bonds will continue to bear interest at the Dutch Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. While the Bonds bear interest at the Dutch Auction Rate, the Bonds will not be subject to purchase on demand of the owners thereof. Prospective purchasers of the Bonds should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Bonds bearing interest at a Dutch Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the Bonds bearing interest at the Dutch Auction Rate will be made in book-entry only form in denominations of \$25,000 and integral multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the Bonds. See the information contained under the caption "SUMMARY OF THE BONDS—Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described herein.

PRICE: 100%

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the Bonds. See "TAX TREATMENT" herein.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Harper, Ferguson & Davis, a division of Ogden Newell & Welch PLLC, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones Day, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriters by their counsel, Winston & Strawn LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about November 20, 2003.

**MORGAN STANLEY**

**BANC OF AMERICA SECURITIES LLC**

**BANC ONE CAPITAL MARKETS, INC.**

**WACHOVIA BANK, NATIONAL ASSOCIATION**

November 13, 2003

Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

## **Redemptions**

### Optional Redemption.

- (i) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.
- (ii) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that Bond.
- (iii) Whenever the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Date (as defined in APPENDIX B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.
- (iv) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the

Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(v) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(vi) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

Original Length of Current Long Term Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agents in their judgment.

*Extraordinary Optional Redemption in Whole.* The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan



Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of a Generating Station have occurred, which, in the judgment of the Company, render the continued operation of such Generating Station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in clean air or other air and water pollution control requirements or solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such Generating Station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes. See "SUMMARY OF THE LOAN AGREEMENT — Maintenance; Damage, Destruction and Condemnation." Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the Daily Rate, Weekly Rate,

Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

*General Redemption Terms.* Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the Bonds is the Dutch Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Underwriters make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates.

**\$40,000,000**  
**LOUISVILLE/JEFFERSON COUNTY**  
**METRO GOVERNMENT, KENTUCKY,**  
**POLLUTION CONTROL REVENUE BONDS,**  
**2005 SERIES A, DUE FEBRUARY 1, 2035**  
**(LOUISVILLE GAS AND ELECTRIC COMPANY PROJECT)**  
**DATED: Date of Original Issuance**

The Louisville/Jefferson County Metro Government, Kentucky, Pollution Control Revenue Bonds, 2005 Series A (Louisville Gas and Electric Company Project) (the "Bonds") will be special and limited obligations of the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with

**LOUISVILLE GAS AND ELECTRIC COMPANY**

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky.

Until the Release Date (generally, the date upon which the Bond Insurer (as hereinafter defined) consents to the release of first mortgage bond collateral of the Company as security for the Bonds, provided that in no event shall that date be later than the date that all of the prior first mortgage bonds of the Company (other than the First Mortgage Bonds securing the Bonds and the First Mortgage Bonds, Pollution Control Series Y, Z, AA, BB, CC, DD, EE, FF and GG) have been retired), principal of, and interest on, the Bonds will be further secured by the delivery to the Trustee of First Mortgage Bonds of the Company. See "SECURITY; RELEASE DATE; LIMITATION ON LIENS" and "SUMMARY OF THE FIRST MORTGAGE BONDS" for a description of the circumstances in which the First Mortgage Bonds will be released. **On the Release Date, the Bonds will cease to be secured by First Mortgage Bonds and will be secured solely by payments to be made by the Company under the Loan Agreement, which will become an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company. From and after the Release Date, the Company will covenant not to incur, assume or guarantee any secured indebtedness other than as permitted in the Loan Agreement. See "SECURITY; RELEASE DATE; LIMITATION ON LIENS."**

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") simultaneously with the delivery of the Bonds.

**Ambac**

The Bonds will accrue interest from the date of original issuance, will initially be issued in a seven-day Auction Period, and will initially bear interest at an ARS Rate determined pursuant to the Auction Procedures described in APPENDIX B hereto. The first Auction will occur on April 22, 2005 and the first Interest Payment Date on the Bonds will be April 25, 2005. The Bonds will continue to bear interest at the ARS Rate in a seven-day Auction Period, with Auctions generally occurring on Friday of each week, until their Conversion to a different Interest Rate Mode or until maturity. While the Bonds bear interest at the ARS Rate, the Bonds will not be subject to purchase on demand of the owners thereof. Prospective purchasers of the Bonds should carefully review the Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Bonds bearing interest at an ARS Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the Bonds bearing interest at the ARS Rate will be made in book-entry only form in denominations of \$25,000 and integral multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the Bonds. See the information contained under the caption "SUMMARY OF THE BONDS—Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of the Bonds bearing interest at the ARS Rate is the responsibility of DTC's Direct and Indirect Participants, as more fully described herein.

**PRICE: 100%**

Subject to the conditions and exceptions set forth under the caption "TAX TREATMENT," Bond Counsel is of the opinion that, under current law, interest on the Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the Bonds. See "TAX TREATMENT" herein.

*The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Harper, Ferguson & Davis, a division of Ogden Newell & Welch PLLC, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones Day, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriters by their counsel, Winston & Strawn LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about April 13, 2005.*

**Goldman, Sachs & Co.**

**UBS Financial Services Inc.**

## Redemptions

### Optional Redemption.

(i) Whenever the Interest Rate Mode for the Bonds is the ARS Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Interest Payment Date immediately following the end of an Auction Period (as defined in Appendix B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest, if any.

(ii) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(iii) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that Bond.

(iv) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(v) Whenever the Interest Rate Mode for the Bonds is the Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Term Rate Period.

(vi) Whenever the Interest Rate Mode for the Bonds is the Fixed Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Fixed Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Fixed Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

Original Length of Current Fixed Rate Period (Years)	Commencement of Redemption Period	Redemption Price as Percentage of Principal
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Fixed Rate Period	100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Fixed Rate Period or a Purchase Date on the final Interest Payment Date during a Fixed Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agents in their judgment. Any such revision of the redemption periods and redemption prices will not be considered an amendment or a supplement to the Indenture and will not require the consent of any Bondholder or any other person or entity.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of a Generating Station have occurred, which, in the judgment of the Company, render the continued operation of such Generating Station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in clean air or other air pollution control requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at a Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such Generating Station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes. See "SUMMARY OF THE LOAN AGREEMENT — Maintenance; Damage, Destruction and Condemnation." Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the

inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

General Redemption Terms. Notice of redemption will be given by mailing a redemption notice conforming to the provisions and requirements of the Indenture by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate



Mode for the Bonds is the ARS Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days prior to the redemption date.

Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. If the provisions for discharging the Indenture set forth below under the caption, "SUMMARY OF THE INDENTURE – Discharge of the Indenture" have not been complied with, any redemption notice will state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Underwriters make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a

Subject to the conditions and exceptions set forth under the caption "Tax Treatment," Bond Counsel is of the opinion that, under current law, interest on each series of Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on each series of Bonds will not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on each series of Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of each series of Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of each series of Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of each series of Bonds. See "Tax Treatment" herein.

**\$31,000,000**  
**Louisville/Jefferson County**  
**Metro Government, Kentucky**  
**Environmental Facilities Revenue**  
**Refunding Bonds**  
**2007 Series A**  
**(Louisville Gas and Electric**  
**Company Project)**

**\$35,200,000**  
**Louisville/Jefferson County**  
**Metro Government, Kentucky**  
**Environmental Facilities Revenue**  
**Refunding Bonds**  
**2007 Series B**  
**(Louisville Gas and Electric**  
**Company Project)**

Dated: Date of original delivery

Due: June 1, 2033

The Bonds of each series (individually the "Series A Bonds" and the "Series B Bonds" and, collectively, the "Bonds") will be special and limited obligations of the Louisville/Jefferson County Metro Government, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to separate Loan Agreements with

### **Louisville Gas and Electric Company**

(the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky.

Payment of the principal of and interest on each series of Bonds when due will be insured by separate financial guaranty insurance policies to be issued by Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") simultaneously with the delivery of the Bonds.

## **Ambac**

The Bonds of each series are separate series and the sale and delivery of one series is not dependent on the sale and delivery of the other series. The Bonds of each series will accrue interest from the respective date of original issuance, will initially be issued in a seven-day Auction Period, and will initially bear interest at an Auction Rate determined pursuant to the Auction Procedures described in Appendix B hereto. The first Auction will occur on May 3, 2007 with subsequent auctions occurring each Thursday unless changed as provided herein. The first Interest Payment Date on the Bonds will be May 4, 2007 and each Friday thereafter subject to certain exceptions described herein. The Bonds of each series will continue to bear interest at an Auction Rate until their Conversion to a different Interest Rate Mode or until maturity. While the Bonds of a series bear interest at the Auction Rate, the Bonds of such series will not be subject to purchase on demand of the owners thereof. Prospective purchasers of the Bonds should carefully review the Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Bonds bearing interest at an Auction Rate may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer. See "Summary of the Bonds—Broker-Dealers," "Summary of the Bonds—Certain Considerations Affecting Auction Rate Securities," "Summary of the Bonds—Summary of Certain Provisions of the Bonds" and "Appendix B—Auction Procedures."

**PRICE: 100%**

The Bonds will be secured solely by payments to be made by the Company under the Loan Agreement, which will be an unsecured general obligation of the Company, and will rank on a parity with other unsecured indebtedness of the Company. The Company will covenant not to incur, assume or guarantee any secured indebtedness other than as permitted in the Loan Agreement. See "Security; Limitation on Liens."

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the Bonds bearing interest at the Auction Rate will be made in book-entry only form in denominations of \$25,000 and integral multiples thereof. Purchasers will not receive certificates representing their beneficial interests in the Bonds. See the information contained under the caption "Summary of the Bonds—Book-Entry-Only System" herein. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described herein.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Stoll Keenon Ogden PLLC, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones Day, Chicago, Illinois and John R. McCall, Esq., Executive Vice President, General Counsel and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriters by their counsel, Winston & Strawn LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about April 26, 2007.

**JPMorgan**

**Morgan Stanley**

Dated: April 18, 2007

delivery of such Bond to the Tender Agent on such Purchase Date; provided that such Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

## **Redemptions**

### Optional Redemption.

(i) Whenever the Interest Rate Mode for the Bonds is the Auction Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Business Day immediately succeeding any Auction Date (as defined in Appendix B attached hereto), at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(ii) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(iii) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company,

in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that Bond.

(iv) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for each Semi-Annual Rate Period.

(v) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(vi) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

<b>Original Length of Current Long Term Rate Period (Years)</b>	<b>Commencement of Redemption Period</b>	<b>Redemption Price as Percentage of Principal</b>
More than or equal to 10 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 10 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agents in their judgment. Any such revision of the redemption periods and redemption prices will not be considered an amendment or a supplement to the Indenture and will not require the consent of any Bondholder or any other person or entity.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to

prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Generating Station have occurred, which, in the judgment of the Company, render the continued operation of such Generating Station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in solid waste abatement, control and disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such Generating Station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer or the Company in the event of damage, destruction or condemnation of all or a portion of the Project, subject to

receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes. See "Summary of the Loan Agreement — Maintenance; Damage, Destruction and Condemnation." Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

*Mandatory Redemption; Determination of Taxability.* The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is

required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

*General Redemption Terms.* Notice of redemption will be given by mailing a redemption notice conforming to the provisions and requirements of the Indenture by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the Bonds is the Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days prior to the redemption date.

*Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice.* Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. If the provisions for discharging the Indenture set forth below under the caption, “Summary of the Indenture – Discharge of Indenture” have not been complied with, any redemption notice will state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Underwriters make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.





## LOUISVILLE GAS AND ELECTRIC COMPANY

FINANCIAL EXHIBIT  
(807 KAR 5:001 SEC. 6)

January 31, 2008

- (1) Amount and kinds of stock authorized.

75,000,000 shares of Common Stock, without par value.

- (2) Amount and kinds of stock issued and outstanding.

21,294,223 shares of Common Stock, without par value, recorded at \$425,170,424.

- (3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets or otherwise.

On January 31, 2007, the Kentucky Commission issued an Order approving LG&E's application for certain financial transactions, including arrangements which provide a source of funds for the redemption of LG&E's preferred stock. In March 2007, a committee of LG&E's board authorized the redemption of the preferred stock, effective in April 2007, pursuant to existing redemption provisions applicable to such series. In April 2007, LG&E redeemed all of its outstanding shares of its series of preferred stock at the following redemption prices, respectively, plus an amount equal to accrued and unpaid dividends to the redemption date:

- 860,287 shares of 5% cumulative preferred stock (par value \$25 per share) at \$28 per share;
- 200,000 shares of \$5.875 cumulative preferred stock (without par value) at \$100 per share; and
- 500,000 shares of auction rate, series A, cumulative preferred stock (without par value) at \$100 per share.

- (4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provisions.

None

- (5) Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together which amount of interest paid thereon during the last fiscal year.

## Unsecured

<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Rate of Interest</u>	<u>Principal Amount</u>		<u>Interest Expense</u>
			<u>Authorized</u>	<u>Outstanding at January 31, 2008</u>	<u>Year Ended January 31, 2008</u>
Pollution Control Bonds					
Sept. 17, 1992	Sept. 1, 2017	Variable	\$31,000,000	\$ 0	\$253,088
Sept. 17, 1992	Sept. 1, 2017	Variable	60,000,000	0	484,652
Aug. 15, 1993	Aug. 15, 2013	Variable	35,200,000	0	284,064
May 19, 2000	May 1, 2027	Variable	25,000,000	25,000,000	939,583
Aug. 9, 2000	Aug. 1, 2030	Variable	83,335,000	83,335,000	3,457,065
Sept. 11, 2001	Sept. 1, 2027	Variable	10,104,000	10,104,000	407,368
Mar. 6, 2002	Sept. 1, 2026	Variable	22,500,000	22,500,000	816,541
Mar. 6, 2002	Sept. 1, 2026	Variable	27,500,000	27,500,000	997,994
Mar. 22, 2002	Nov. 1, 2027	Variable	35,000,000	35,000,000	1,273,940
Mar. 22, 2002	Nov. 1, 2027	Variable	35,000,000	35,000,000	1,271,352
Oct. 23, 2002	Oct. 1, 2032	Variable	41,665,000	41,665,000	1,658,944
Nov. 20, 2003	Oct. 1, 2033	Variable	128,000,000	128,000,000	4,811,787
Apr. 13, 2005	Feb. 1, 2035	Variable	40,000,000	40,000,000	1,458,683
Apr. 26, 2007	Jun. 1, 2033	Variable	31,000,000	31,000,000	895,833
Apr. 26, 2007	Jun. 1, 2033	Variable	35,200,000	35,200,000	1,018,326
Apr. 26, 2007	Jun. 1, 2033	4.6%	60,000,000	60,000,000	2,108,333
Interest Rate Swaps					1,688,935
					<u>\$23,826,488</u>

- (6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.

<u>Payee</u>	<u>Date of Issue</u>	<u>Intercompany Notes Payable</u>			<u>Interest Expense</u>
		<u>Date of Maturity</u>	<u>Rate of Interest</u>	<u>Amount</u>	<u>Year Ended January 31, 2008</u>
Fidelia Corp.	4/30/03	4/30/13	4.55%	100,000,000	\$4,550,000
Fidelia Corp.	8/15/03	8/15/13	5.31%	100,000,000	5,310,000
Fidelia Corp.	1/15/04	1/16/12	4.33%	25,000,000	1,082,500
Fidelia Corp.	4/13/07	4/13/37	5.98%	70,000,000	3,348,800
Fidelia Corp.	4/13/07	4/13/31	5.93%	68,000,000	3,225,920
Fidelia Corp.	11/26/07	11/26/22	5.72%	47,000,000	485,405
					<u>\$18,002,625</u>

- (7) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

- (8) Rate and amount of dividends paid during the five previous fiscal years, and the amount of capital stock on which dividends were paid each year. (1)

2003	-
2004	57,000,000
2005	39,000,000
2006	95,000,000
2007	65,000,000

As of May 1998, the 21,294,223 shares are all owned by E.ON U.S. LLC (formerly, LG&E Energy LLC) and all dividends declared by LG&E's Board of Directors are paid to E.ON U.S. LLC.

Dividends on 5% Cumulative Preferred Stock, \$25 par value

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$.3125 per share on the 860,287 shares of 5% Cumulative Preferred Stock, \$25 par value, outstanding for a total of \$268,841. The annual amount of dividends for each of the previous five fiscal years was \$1,075,366. All shares were redeemed on April 16, 2007.

Dividends on \$5.875 Cumulative Preferred Stock, without par value

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.46875 per share on the \$5.875 series preferred stock outstanding. The preferred stock has a sinking fund requirement sufficient to retire a minimum of 12,500 shares on July 15 of each year commencing with July 15, 2003, and the remaining 187,500 shares on July 15, 2008 at \$100 per share. The Company redeemed 12,500 shares in accordance with these provisions annually on July 15, 2003 through July 15, 2006. The 200,000 remaining shares were redeemed April 16, 2007.

Annual dividends for the previous five fiscal years were:

2003	1,432,034
2004	1,358,594
2005	1,285,156
2006	1,211,719
2007	345,972

Dividends on Auction Rate Cumulative Preferred Stock, without par value

<u>Month Declared</u>		<u>Payment Date</u>	<u>Rate Per Share</u>	<u>Amount</u>
March	2003	4/15/2003	0.60000	\$300,000
June	2003	7/15/2003	0.53750	268,750
September	2003	10/15/2003	0.34750	173,750
December	2003	1/15/2004	0.33000	165,000
				<u>\$907,500</u>
March	2004	4/15/2004	0.37500	\$187,500
June	2004	7/15/2004	0.43750	218,750
September	2004	10/15/2004	0.48750	243,750
December	2004	1/18/2005	0.62500	312,500
				<u>\$962,500</u>
March	2005	4/15/2005	0.75000	\$375,000
June	2005	7/15/2005	0.97500	487,500
September	2005	10/17/2005	0.97500	487,500
December	2005	1/17/2006	1.10000	550,000
				<u>\$1,900,000</u>
March	2006	4/15/2006	1.20000	\$600,000
June	2006	7/15/2006	1.33750	668,750
September	2006	10/15/2006	1.44750	723,750
December	2006	1/15/2007	1.27500	637,500
				<u>2,630,000</u>
March	2007	4/13/2007	1.25000	\$625,000
				<u>\$625,000</u>

Dividend is based on 500,000 shares for all periods. All shares were redeemed on April 16, 2007.

(9) Detailed Income Statement, Balance Sheet and Statement of Retained Earnings

Monthly Financial and Operating Reports are filed each month with the Kentucky Public Service Commission. Our most recent mailing covered financial statements for periods through February 29, 2008. Attached are detailed Statements of Income, Balance Sheets and Retained Earnings for the Company for the period ending January 31, 2008.

## LOUISVILLE GAS &amp; ELECTRIC COMPANY

In April 2007, LG&E completed a series of financial transactions impacting its periodic reporting requirements. The \$31 million Pollution Control Series S, the \$60 million Pollution Control Series T and the \$35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps. LG&E no longer has any secured debt and, having deregistered applicable securities with the SEC effective, is no longer subject to periodic reporting under the Securities Exchange Act of 1934. The Annual Report, the FERC Form 1, and subsequent monthly reports of LG&E have been previously filed with the Kentucky Commission.



## Summary of Bond Insurance Options

		CUSIP	Coupon	Amount	Existing Insurer	Net Present Value		
						Variable w/LOC	Put	Fixed w/o Insurance
<b>Louisville Gas &amp; Electric Company</b>								
May 1, 2027	Series Y	473044BT	Variable	25,000,000	Ambac	9,969,115	15,825,237	16,254,185
August 1, 2030	Series Z	8896224AS	Variable	83,335,000	Ambac	35,503,293	57,577,827	60,174,432
September 1, 2027	Series AA	47302PAA	Variable	10,104,000	Ambac	4,341,242	6,883,777	6,982,341
October 1, 2032	Series FF	896224AV4	Variable	41,665,000	Ambac	18,679,644	30,235,846	31,787,360
October 1, 2033	Series GG	546749AA	Variable	128,000,000	XL	56,805,334	91,014,283	96,630,115
February 1, 2035	Series HH	546749AB8	Variable	40,000,000	Ambac	18,377,559	29,415,310	31,188,083
June 1, 2033		546751AB4	Variable	35,200,000	Ambac	15,809,013	25,221,913	26,587,690
June 1, 2033		546751AA6	Variable	31,000,000	Ambac	13,967,817	22,267,329	23,449,301
<b>Total - LG&amp;E</b>				<b>394,304,000</b>		<b>173,453,015</b>	<b>278,441,522</b>	<b>293,053,505</b>

### Assumptions

Discount Rate	6.00%
L/C Facility Fee	0.55%
2007 Average CP Rate	3.723%
2007 Average SIFMA Rate	3.625%
Spread Over SIFMA	0.097%
10-Year SIFMA	2.650%
LOC Spread Over SIFMA	0.050%
Remarketing Fee	0.100%
All-In Rate	2.800%
L/C Facility Fee	0.550%
	3.350%
Upfront L/C Fee (Every 3 Years)	0.125%
Legal Fee (Every 3 years) per issue	\$ 20,000
Arrangement Fee (Every 3 Years)	\$ 350,000
5-Year Put (AMT)	5.50%
5-Year Put (Non-AMT)	5.35%

	Bond Issuance Costs	
	Fixed w/o Insurance	Variable (bps)
Underwriting		0.35%
Bond Counsel	80,000	0.50% (fixed, put)
Company Counsel	70,000	
Underwriters Couns	41,000	
Ratings	40,000	
Printing	5,000	
Trustee Counsel	3,000	
Accountants	40,000	
Trustee	6,000	
	285,000	

### Note:

While the analysis shows the results for each alternative for each bond, the company expects to use a mix of alternatives. This diversity is prudent given the limited availability of letter of credit facilities in the current market and to avoid excess exposure to any one market segment.

Variable Letter of Credit

Date	Coupon	Amount	Existing Issues	Years to Maturity	N/A	Refinancing Cost	Letter of Credit Arrangement Fee	Interest		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
								Fixed Rate	Flexible Rate																
May 1, 2007	Series Y	Variable	25,000,000	Ambac	Non-AMT	18.3	9,969,115	372,256	22,191	3.300%															
August 1, 2009	Series Z	Variable	83,335,000	Ambac	AMT	72.6	38,503,293	916,458	73,971	3.300%	898,441	825,000	825,000	898,441	825,000	898,441	825,000	825,000	898,441	825,000	825,000	898,441	825,000	825,000	898,441
September 1, 2007	Series AA	Variable	10,104,000	Ambac	AMT	70.7	4,241,242	230,150	8,969	3.350%	2,989,863	2,791,723	2,791,723	2,989,863	2,791,723	2,989,863	2,791,723	2,791,723	2,989,863	2,791,723	2,791,723	2,989,863	2,791,723	2,791,723	2,989,863
October 1, 2012	Series FF	Variable	47,655,000	Ambac	AMT	74.8	18,678,044	432,813	8,969	3.350%	380,083	338,484	338,484	380,083	338,484	380,083	338,484	338,484	380,083	338,484	338,484	380,083	338,484	338,484	380,083
February 1, 2008	Series GG	Variable	128,000,000	XL	Non-AMT	25.8	56,895,334	732,796	96,884	3.350%	1,504,842	1,395,778	1,395,778	1,504,842	1,395,778	1,504,842	1,395,778	1,395,778	1,504,842	1,395,778	1,395,778	1,504,842	1,395,778	1,395,778	1,504,842
June 1, 2013	Series HH	Variable	40,000,000	Ambac	Non-AMT	27.1	18,377,559	424,786	35,506	3.300%	4,517,618	4,224,000	4,224,000	4,517,618	4,224,000	4,517,618	4,224,000	4,224,000	4,517,618	4,224,000	4,224,000	4,517,618	4,224,000	4,224,000	4,517,618
June 1, 2013		Variable	35,200,000	Ambac	Non-AMT	26.4	15,629,013	353,458	31,245	3.300%	1,425,596	1,320,000	1,320,000	1,425,596	1,320,000	1,425,596	1,320,000	1,320,000	1,425,596	1,320,000	1,320,000	1,425,596	1,320,000	1,320,000	1,425,596
Total - L/Cs		Variable	374,304,000			28.4	173,453,615	3,658,348	352,000	3.300%	14,082,464	13,079,584	13,079,584	14,082,464	13,079,584	14,082,464	13,079,584	13,079,584	14,082,464	13,079,584	13,079,584	14,082,464	13,079,584	13,079,584	14,082,464

Assumptions

Discount Rate 6.000%

10-Year SIPMA 2.65%

LOC Spread Over SIPMA 0.05%

Remarketing Fee 0.002%

AM-Is Rate 2.80%

L/C Facility Fee 0.65%

Non-AMT Favorability 3.35%

0.85%

Uplift/LD Fee (Every 3 Years) 0.125%

Legal Fee (Every 3 years) per Issue \$ 20,000

Arrangement Fee (Every 3 Years) \$ 300,000

Bond Issue Costs

	Fixed	Variable (bps)
Underwriting		0.003%
Bond Counsel	50,000	
Company Counsel	70,000	
Underwriters Counsel	41,000	
Ratings	40,000	
Printing	4,700	
File/stop Counsel	3,000	
Accountants	40,000	
Treasury	6,000	
	264,700	



Variable Letter of Credit

Date	Series	Amount	Existing Interest	Year to Maturity	NPV	Refinancing Cost	Letter of Credit Arrangement Fee	Interest													Total								
								Flexible Rate	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034		2035	2036						
<b>Louisville Gas &amp; Electric Company</b>																													
May 1, 2027	Series Y	Variable	25,000,000	Ambac Non-AMT	19.3	9,989,115	472,236	22.191	3.300%	898,441	875,900	825,000	898,441	277,292	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
August 1, 2030	Series Z	Variable	83,335,000	Ambac AMT	22.6	35,503,293	576,458	73,971	3.350%	2,889,853	2,791,723	2,791,723	2,889,853	2,791,723	2,791,723	2,889,853	1,651,769	-	-	-	-	-	-	-	-	-	-	-	15,456,378
September 1, 2027	Series AA	Variable	10,104,000	Ambac AMT	19.7	4,341,242	329,150	8,969	3.250%	360,033	338,484	338,484	360,033	229,417	-	-	-	-	-	-	-	-	-	-	-	-	-	-	64,654,788
October 1, 2032	Series FF	Variable	41,655,000	Ambac AMT	24.8	18,579,644	430,613	96,894	3.350%	1,504,842	1,385,778	1,385,778	1,504,842	1,385,778	1,385,778	1,504,842	1,385,778	1,385,778	1,069,219	-	-	-	-	-	-	-	-	-	6,951,604
October 1, 2033	Series GG	Variable	128,000,000	XL Non-AMT	25.8	56,605,334	732,368	113,616	3.300%	4,517,618	4,224,000	4,224,000	4,517,618	4,224,000	4,224,000	4,517,618	4,224,000	4,224,000	4,517,618	3,214,933	-	-	-	-	-	-	-	-	35,437,397
February 1, 2035	Series HH	Variable	35,200,000	Ambac Non-AMT	25.4	13,971,517	393,336	17,517	3.300%	1,256,845	1,181,600	1,181,600	1,256,845	1,181,600	1,181,600	1,256,845	1,181,600	1,181,600	1,256,845	490,453	-	-	-	-	-	-	-	-	114,457,435
June 1, 2033	Series II	Variable	31,030,000	Ambac Non-AMT	25.4	13,971,517	393,336	17,517	3.300%	1,256,845	1,181,600	1,181,600	1,256,845	1,181,600	1,181,600	1,256,845	1,181,600	1,181,600	1,256,845	490,453	-	-	-	-	-	-	-	-	36,706,694
<b>Total - LG&amp;E</b>		<b>Variable</b>	<b>394,204,000</b>			<b>173,453,015</b>	<b>3,658,349</b>	<b>350,000</b>		<b>14,057,694</b>	<b>13,079,284</b>	<b>13,079,284</b>	<b>14,057,694</b>	<b>12,422,899</b>	<b>11,916,100</b>	<b>12,403,840</b>	<b>10,776,147</b>	<b>9,124,378</b>	<b>8,378,454</b>	<b>5,487,320</b>	<b>1,320,000</b>	<b>117,333</b>						<b>28,293,353</b>	

**Assumptions**

Discount Rate	6.000%
10-Year SIFMA	2.65%
LOC Spread Over SIFMA	0.05%
Remarketing Fee	0.10%
Arbitrage Rate	2.80%
L/C Facility Fee	0.50%
Non-AMT Flexibility	0.05%
Upfront L/C Fee (Every 2 Years)	0.125%
Legal Fee (Every 3 years) per issue	\$ 20,000
Arrangement Fee (Every 3 Years)	\$ 350,000

**Bond Issue Costs**

	Fixed	Variable (Obs)
Underwriting		0.000%
Bond Counsel	80,000	
Company Counsel	70,000	
Underwriters Counsel	41,000	
Ratings	40,000	
Printing	4,200	
Trustees Counsel	3,000	
Accountants	40,000	
Trustee	6,000	
<b>Total</b>	<b>284,200</b>	

Put

	Coupon	Amount	Existing Interest	Years to Maturity	NPV	Refinancing Cost	(Every 5 Years) Refinancing Cost Less Level	Interest 5-Year Put	2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022																				
									2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022						
<b>Louisville Gas &amp; Electric Company</b>																													
May 1, 2027	Series Y	Variable	25,000,000	Ambac	Non-AMT	19.3	15,825,237	410,000	5.350%	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500	1,337,500		
August 1, 2030	Series Z	Variable	83,335,000	Ambac	AMT	22.6	57,577,827	701,675	5.500%	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	4,583,425	
September 1, 2027	Series AA	Variable	10,104,000	Ambac	AMT	19.7	6,863,777	348,520	5.500%	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	555,720	
October 1, 2032	Series FF	Variable	41,665,000	Ambac	AMT	24.8	30,203,846	433,325	5.500%	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	2,291,575	
October 1, 2033	Series GG	Variable	128,000,000	XL	Non-AMT	25.8	91,014,283	925,000	5.350%	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	6,848,000	
February 1, 2035	Series HH	Variable	49,000,000	Ambac	Non-AMT	27.1	29,415,310	455,000	5.350%	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	2,140,000	
June 1, 2033		Variable	35,200,000	Ambac	Non-AMT	25.4	25,221,913	451,000	5.350%	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	1,883,200	
June 1, 2033		Variable	31,600,000	Ambac	Non-AMT	25.4	22,287,329	450,000	5.350%	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500	1,658,500
<b>Total - LG&amp;E</b>			<b>394,264,000</b>				<b>276,441,522</b>	<b>4,251,620</b>		<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	

**Assumptions**

Discount Rate	6.000%
5-Year Put (AMT)	5.65%
5-Year Put (Non-AMT)	5.35%
Non-AMT Parity	0.15%

**Bond Issue Costs**

	Fixed	Variable (Ass)
Underwriting		0.50%
Bond Counsel	50,000	
Company Counsel	70,000	
Underwriters Counsel	41,000	
Printings	40,000	
Trustee Counsel	5,000	
Accountants	3,000	
Accountants	40,000	
Titelco	5,000	
<b>Total</b>	<b>285,000</b>	

Put

Date	Series	Amount	Existing Interest	Years to Maturity	NPV	Refinancing Cost	(Every 5 Years) Refinancing Cost Less Lease	5-Year Put	Interest												Total						
									2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034		2035	2036				
<b>Louisville Gas &amp; Electric Company</b>																											
May 1, 2027	Series Y	Variable	25,000,000	Ambac	Non-AMT	19.3	15,425,237	410,000	210,000	5.350%	1,537,500	1,337,500	1,337,500	1,337,500	1,337,500	449,549	-	-	-	-	-	-	-	-	-	26,510,049	
August 1, 2030	Series Z	Variable	83,335,000	Ambac	AMT	22.8	47,577,927	701,878	507,676	5.500%	5,091,100	4,583,425	4,583,425	4,583,425	4,583,425	-	-	2,711,860	-	-	-	-	-	-	-	-	113,339,895
September 1, 2027	Series AA	Variable	10,104,000	Ambac	AMT	19.7	6,882,777	335,520	141,520	5.500%	697,240	556,720	556,720	556,720	376,655	5,091,100	4,583,425	-	-	-	-	-	-	-	-	-	106,577,910
October 1, 2032	Series FF	Variable	41,665,000	Ambac	AMT	24.8	30,234,845	493,325	290,575	5.500%	2,590,900	2,291,575	2,291,575	2,291,575	2,291,575	2,590,900	2,291,575	2,291,575	2,291,575	1,750,509	-	-	-	-	-	-	57,948,609
October 1, 2033	Series GG	Variable	129,000,000	XL	Non-AMT	25.8	91,014,285	925,000	731,000	5.350%	7,579,000	6,848,000	6,848,000	6,848,000	6,848,000	7,579,000	6,848,000	6,848,000	6,848,000	6,848,000	5,212,059	-	-	-	-	-	178,336,089
February 1, 2035	Series HH	Variable	40,000,000	Ambac	Non-AMT	27.1	29,415,310	465,000	291,000	5.350%	2,431,000	2,140,000	2,140,000	2,140,000	2,140,000	2,431,000	2,140,000	2,140,000	2,140,000	2,140,000	2,431,000	2,140,000	2,140,000	190,222	-	-	59,425,222
June 1, 2033		Variable	35,200,000	Ambac	Non-AMT	25.4	25,221,913	461,000	267,000	5.350%	2,150,200	1,883,200	1,883,200	1,883,200	1,883,200	2,150,200	1,883,200	1,883,200	1,883,200	1,883,200	795,128	-	-	-	-	-	48,945,128
June 1, 2033		Variable	31,000,000	Ambac	Non-AMT	25.4	22,297,329	440,000	249,000	5.350%	1,904,500	1,658,500	1,658,500	1,658,500	1,658,500	1,904,500	1,658,500	1,658,500	1,658,500	1,658,500	780,258	-	-	-	-	-	43,140,758
<b>Total - LG&amp;E</b>			<b>384,304,000</b>				<b>218,441,822</b>	<b>4,257,520</b>	<b>2,689,620</b>		<b>23,987,440</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>21,297,920</b>	<b>20,230,900</b>	<b>21,745,700</b>	<b>18,404,700</b>	<b>17,533,135</b>	<b>14,821,275</b>	<b>14,289,209</b>	<b>9,138,473</b>	<b>2,140,000</b>	<b>190,222</b>	<b>-</b>	<b>532,244,657</b>	

**Assumptions**

Discount Rate	6.000%
5-Year Put (AMT)	5.50%
5-Year Put (Non-AMT)	5.35%
Non-AMT Favorability	0.15%

**Bond Issue Costs**

	Fixed	Variable (bps)
Underwriting		0.50%
Bond Counsel	90,000	
Company Counsel	70,000	
Underwriters Counsel	41,000	
Ratings	40,000	
Printing	5,000	
Trustee Counsel	3,000	
Accountants	40,000	
Trustee	6,000	
<b>Total</b>	<b>285,000</b>	

**Fixed Rate**

Coupon	Amount	Existing Insular	Years to Maturity	NPV	Refinance Cost	Interest															
						Fixed Rate	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Louisville Gas &amp; Electric Company</b>																					
May 1, 2027	Variable	25,000,000	Ambac	Non-AMT	19.3	16,254,185	410,000	5.627%	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757	1,406,757
August 1, 2030	Series 2	Variable	83,333,000	Ambac	AMT	22.6	60,174,434	791,675	5.651%	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224
September 1, 2027	Series AA	Variable	10,104,000	Ambac	AMT	19.7	6,982,347	335,520	5.736%	584,621	584,621	584,621	584,621	584,621	584,621	584,621	584,621	584,621	584,621	584,621	584,621
October 1, 2032	Series FF	Variable	41,565,000	Ambac	AMT	24.8	31,787,350	493,325	5.901%	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610
October 1, 2033	Series GG	Variable	178,000,000	XL	Non-AMT	25.9	96,630,115	925,000	5.773%	7,389,982	7,389,982	7,389,982	7,389,982	7,389,982	7,389,982	7,389,982	7,389,982	7,389,982	7,389,982	7,389,982	7,389,982
June 1, 2033	Series HH	Variable	40,000,000	Ambac	Non-AMT	27.1	31,185,083	455,000	5.803%	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081
June 1, 2033	Series II	Variable	35,000,000	Ambac	Non-AMT	25.4	26,597,690	491,000	5.784%	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074
June 1, 2033	Series JJ	Variable	31,000,000	Ambac	Non-AMT	25.4	23,449,201	440,000	5.784%	1,786,968	1,786,968	1,786,968	1,786,968	1,786,968	1,786,968	1,786,968	1,786,968	1,786,968	1,786,968	1,786,968	1,786,968
<b>Total - LG&amp;E</b>			<b>394,304,000</b>				<b>283,053,505</b>	<b>4,251,520</b>		<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>	<b>22,853,317</b>

**Assumptions**

Discount Rate 6.000%  
 Non-AMT Favorable 0.750%

	Bond Issuer Costs	
	Fixed	Variable (bps)
Underwriting		0.50%
Bond Counsel	80,000	
Company Counsel	70,000	
Underwriters Counsel	41,000	
Rating	40,000	
Printing	5,000	
Trustee Counsel	3,000	
Accountants	40,000	
Trustee	5,000	
<b>Total</b>	<b>286,000</b>	

Fixed Rate

Maturity	Coupon	Amount	Existing Interest	Years to Maturity	NPV	Refinancing Cost	Interest														Total						
							Fixed Rate	2022	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035		2036					
Underline Gas & Electric Company																											
May 1, 2021	Series Y	Variable	25,000,000	Ambac	Non-AMT	19.3	18,254,185	410,000	5.627%	1,406,757	1,406,757	1,406,757	1,406,757	472,827	-	-	-	-	-	-	-	-	-	-	-	-	-
August 1, 2020	Series Z	Variable	30,329,000	Ambac	AMT	22.0	60,174,432	701,679	8.819%	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	4,876,224	2,853,099	-	-	-	-	-	-	-	-	-	27,201,205
September 1, 2027	Series AA	Variable	10,701,000	Ambac	AMT	19.7	6,982,341	335,520	5.785%	584,621	584,621	584,621	584,621	584,621	-	-	-	-	-	-	-	-	-	-	-	-	110,162,619
October 1, 2032	Series FF	Variable	41,965,000	Ambac	AMT	24.8	31,787,260	493,235	5.901%	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	2,458,610	1,458,610	1,376,105	-	-	-	-	-	-	-	11,504,944
October 1, 2033	Series GG	Variable	41,965,000	Ambac	AMT	24.8	31,787,260	493,235	5.775%	2,389,982	2,389,982	2,389,982	2,389,982	2,389,982	2,389,982	2,389,982	2,389,982	7,389,982	7,389,982	7,389,982	5,674,397	-	-	-	-	-	80,584,794
February 1, 2035	Series HH	Variable	128,000,000	XL	Non-AMT	25.8	98,850,115	925,000	5.603%	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	2,321,081	190,374,147
June 1, 2033	Series HH	Variable	40,000,000	Ambac	Non-AMT	21.1	31,189,053	485,000	5.764%	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	2,029,074	62,876,505
June 1, 2037	Series HH	Variable	35,200,000	Ambac	Non-AMT	25.4	28,452,241	590,000	6.764%	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	1,785,968	51,583,567
Total - LG&E		Variable	394,204,000	Ambac	Non-AMT	26.4	293,053,505	4,281,500		22,853,317	22,853,317	22,853,317	22,853,317	21,731,009	20,881,629	20,881,629	18,870,815	15,985,716	15,409,211	9,556,896	2,321,081	206,318	-	-	-	569,813,953	

Assumptions  
 Discount Rate 6.000%  
 Non-AMT Favorability 0.150%

Bond Issue Costs	
	Fixed Variable/Best
Underwriting	80,000
Bond Counsel	70,000
Company Counsel	41,000
Underwriters Counsel	40,000
Ratings	5,000
Printing	3,000
Trustee Counsel	40,000
Notarizations	5,000
Trustee	285,000